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NATURAL RESOURCE TAX

Compiled and Edited by

PAUL C. RAGSDALE

Department of Speech, The University of Texas

Bureau of Public School Extracurricular Activities
Division of Extension



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**PUBLISHED BY THE UNIVERSITY FOUR TIMES A MONTH AND ENTERED AS
SECOND-CLASS MATTER AT THE POST OFFICE AT AUSTIN, TEXAS,
UNDER THE ACT OF AUGUST 24, 1912**

The benefits of education and of useful knowledge, generally diffused through a community, are essential to the preservation of a free government.

Sam Houston

Cultivated mind is the guardian genius of Democracy, and while guided and controlled by virtue, the noblest attribute of man. It is the only dictator that freemen acknowledge, and the only security which freemen desire.

Mirabeau B. Lamar

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FOREWORD

FOLLOWING out its customary policy, the University Interscholastic League submitted a list of debatable questions to the entire membership last winter requesting that the superintendent, or principal in conjunction with the debate director of the respective schools, indicate preference by ranking the questions. The present question was the preference of the overwhelming majority of the schools, and we believe that the choice was a wise one. We think that the boys and girls of Texas who have reached high school should be introduced to questions of State policy currently discussed, and, if possible, to questions which are before the legislature for settlement one way or the other. It is much easier to study and talk about a problem concerning which something can be done than one in which the interest is more or less academic. In all probability the state papers will be filled throughout the debating season with articles, editorials, interviews, and reported speeches bearing upon the issues involved in the present query, and each debater should keep a properly indexed scrapbook for ready reference as the season progresses. Directors of debate should not forget the fine speech and debate institutes that are held now in every section of the state. Try to attend at least one. Watch th LEAGUER for specific announcements of the various institutes.



Director.

AN ANALYTICAL SURVEY OF THE QUESTION

I. DEFINITIONS AND INTERPRETATION

A. Natural resources.

*Materials, as mineral deposits and waterpower, as supplied by nature.*¹

*Forests, lands, minerals, and waters.*²

*Soils, surface and underground water, climate, forest, plant life, wildlife, minerals, the natural resources classified for Texas in the Texas Almanac for 1939.*³

Thus, the term natural resources in its broadest meaning includes all natural wealth of the State. However, in regard to the term when used in connection with taxation, the popular meaning of the term usually applies to mineral resources only, and specifically to the mineral resources of oil, natural gas, and sulphur. For all practical purposes the only mineral resources in Texas which are produced in sufficient commercial quantities to derive any substantial tax revenue therefrom are oil, natural gas, and sulphur.⁴

B. Tax.

*A forced contribution of wealth to meet the public need of government.*⁵

The tax levying power in question is assumed to be the State government of Texas.

The economic sphere of the Texas mineral-resources industries to be taxed as proposed should include only the production phase thereof, and not transportation, manufacturing, or sale of such resources. In Texas such a tax is legally classified as an occupation tax, and by constitutional provision at least one-fourth of all occupation taxes must go to the permanent school fund and the remainder to the general revenue fund.⁶ The present taxes levied by the State upon the production of the mineral resources of oil, natural gas, and sulphur are as follows:

Oil— $2\frac{3}{4}$ c per barrel or $2\frac{3}{4}$ % of the value over \$1.00.

Gas—2% of the average value of the gas at the well.

Sulphur—\$1.50 per ton.

¹Webster's New International Dictionary, Second Ed.

²Encyclopedia Americana, Vol. 7, p. 546.

³Texas Almanac and Industrial Guide, 1939-40.

⁴Ibid., p. 213.

⁵Webster's New International Dictionary, Second Ed.

⁶Article VIII, Texas Constitution.

C. Rate.

The amount of increase over the present mineral-resource tax rates to be advocated is a matter which is open to discussion and should be one of the main issues of the question.

The specific rate increases set down in the brief are merely suggestive and are used only to give the debater an idea of a proposed general plan for increased natural resource taxes.

D. Need.

The first duty of the Affirmative is to establish a need for a further increase in natural resource taxes. In order to do this, the Affirmative must prove the necessity for this particular method of taxation increase, *i.e.*, on natural resources. Therefore, the Affirmative cannot fulfill this duty by merely pointing out that there is a need for more revenue on the part of the State. The fact that the State requires additional revenue is no more an entire justification for increased resource taxation than it is for further railroad, consumer, or real-estate taxes. Rather, the need for revenue is but *one* of many necessary issues to be proved by the Affirmative in order to establish the need step of their constructive case.

Therefore, the Affirmative must show by a number of basic premises and contentions that there is a condition in our economic and social system which necessitates the adoption of their proposal, *i.e.*, the increase of natural resource taxes. Some of these contentions have been presented in the Affirmative brief, which follows.

E. Remedy.

In order to establish a causal connection between the need and the remedy, the specific plan for increased taxes should be one that best meets the requirements as set forth in the need step. Thus, it should be shown that an increase in natural resource taxation will provide the needed revenue; that it will fulfill the requirements of a good tax plan; that it will provide a means of recovering the State's rightful share of its exploited resources; that it will not disturb the economy of our natural resource interests; that a plan can be worked out which will be efficient and just. To say the least, the specific tax plan proposed should be determined by taking all important factors into consideration and not by pure speculation and "guessing" as to what seems to be the best remedy.

F. Conclusions.

The natural resource industries of Texas are in a period of constant change and rapid development, and at the same time their reserves are being constantly depleted. These industries react strongly to the varying economic forces of the State and nation, as well as to the turbulent international forces of our modern world. As a result, the debater cannot look for permanent conditions and changeless facts and figures concerning these industries. Rather, he must look for general trends and movements; he must consider a series of statistics rather than a single figure; he must be alert to sudden variations and developments in these industries and their relation to our State tax structure, which is constantly changing in itself.

The importance of this question to the people of Texas is strongly apparent. It is one of the most important social and political issues of the day. The solution to the problems presented by this question will be of vital significance to the State of Texas and its people for many years to come. Therefore, the student debater should take a broad view of the question and consider it in regard to the future welfare of Texas and its posterity.

AFFIRMATIVE BRIEF

Resolved, THAT TEXAS SHOULD INCREASE THE TAX
ON NATURAL RESOURCES.

- I. There is an immediate need for Texas to increase the tax on natural resources.
 - A. The State government, now operating under a general deficit, needs an added source of revenue.
 1. As of September 1, 1938, the general revenue fund had a deficit of \$13,427,891.¹
 2. As of August 31, 1939, the general revenue fund had a deficit of \$18,983,514.²
 3. As of April 1, 1940, the general revenue fund had a deficit of \$21,984,276.³
 4. The Confederate pension fund had a deficit of \$3,052,377 as of August 31, 1939.⁴
 - B. The State of Texas must have additional revenue to meet its social security obligations.
 1. The Constitution of Texas provides for the establishment of a fund for the aid of dependent children.
 - a. The Constitution fixes the sum of \$1,500,000 per year for this fund.⁵
 - b. No source of revenue has been established for the maintenance of this fund.⁶
 2. The Constitution provides for the establishment of a fund for the aid of needy blind.
 - a. An estimated \$400,000 annually is needed to maintain this fund.⁷
 - b. No funds have been made available for this obligation of the State.⁸
 3. The State is obligated to match the payments of teachers under the Teachers' Retirement Act.
 - a. The teachers are paying into this fund approximately \$2,600,000 annually; by August 31, 1941, they will have paid in a total of \$10,000,000.⁹
 - b. The State has failed to match these payments.

¹*Annual Report of Comptroller of Public Accounts of the State of Texas, 1939, p. 35.*

²*Ibid.*

³*Report from Office of the Comptroller.*

⁴*Annual Comptroller's Report, 1939, p. 35.*

⁵*Texas Constitution.*

⁶*Social Security Bulletin, Vol. 3, No. 5, p. 2.*

⁷*Report from Texas Department of Public Welfare, Research Division.*

⁸*Social Security Bulletin, Vol. 3, No. 5, p. 2.*

⁹*Report from Texas Department of Public Welfare, Research Division.*

4. The State of Texas has failed to fulfill its obligations to the aged of the State.
 - a. There are approximately 285,000 persons over the age of 65 in Texas. At the present time Texas is paying assistance to 120,000, or only 42% of all the aged in the State.¹⁰
 - b. The average amount being paid to all recipients is \$10.32, which is \$6.00 less than the authorized amount based on our present definition of need.¹¹
 - c. It is estimated that an additional \$6,400,000 will be required to pay the authorized average of \$16.32 according to our present basis of need.¹² Such amount would be matched by the Federal Government's Social Security Act.¹³
 - d. U.S. government figures show that with Federal matching of all present eligible pensions for a full \$30 a month and with the State agreeing to pay all the rest of those over 65 its \$15 a month, Texas will have to raise \$41,000,000 a year on top of all present taxes.¹⁴
 - e. If all persons over 65 years of age in Texas are paid the full \$30 per month as stated in the Constitution, an additional revenue of \$79,880,000 will be necessary.¹⁵
5. It is vitally important that the State of Texas fulfill these legal duties and obligations of social security.
 - a. A sound credit and financial basis should be maintained by our State government.
 - b. The State should maintain the people's confidence in their government.
 - c. The social welfare of its needy citizens is one of the basic functions of a State government.
 - d. An adequate retirement system for teachers is a necessary part of a successful educational system.
- C. The expenditures of our State government are progressively increasing from year to year.
 1. The general trend of all State governments has been toward increased functions which necessarily require an increase in expenditures.

¹⁰*Texas Department of Public Welfare Report, Division of Research and Statistics, June, 1940.*

¹¹*Ibid.*

¹²*Ibid.* Calculation by the author.

¹³*Ibid.*

¹⁴Raymond Brooks, *Austin American-Statesman*, Aug. 14, 1938, p. 16.

¹⁵Rousse, T. A., *The Sales Tax Bulletin*, p. 11.

- a. "Public expenditures steadily increase from year to year with the certainty and uniformity of natural law."¹⁶
 - b. "Total State expenditures in the U.S. for 1915 were \$494.4 millions; for 1932 they amounted to \$2,505.8 millions."¹⁷
 - c. "The fact of a continuous increase of public expenditures cannot be denied. The figures show that public expenditures increase more rapidly than population."¹⁸
 - d. "State and local governments are faced with an increasing demand for services and facilities which invariably require increased public expenditures."¹⁹
2. The expenditures of our State government are progressively increasing from year to year.
 - a. The total expenditures of the State of Texas for the year:²⁰

1935	\$111,175,509
1936	\$124,941,729
1937	\$144,770,274
1938	\$157,747,877
1939	\$164,323,499
 - b. Such increases demand additional sources of revenue.
- D. The State of Texas is failing to furnish adequate appropriations to many of its necessary and vital governmental agencies.
 1. The eleemosynary institutions of the State requested \$9,466,452 for the year 1938, while the legislative appropriation amounted to only \$7,842,679.²¹
 2. The educational requests were for a total of \$11,947,643, but only eight million dollars was granted them.²²
 3. The departmental budget for 1938 received three and a half millions less in appropriations than requested.²³
 4. Texas spends less than one-fourth the average U.S. amount of seventeen cents per person for public health.
 5. The Department of Public Safety is greatly handicapped by a lack of adequate funds.
 6. Examples of other state services which are inadequately provided for are numerous and apparent.

¹⁶T. E. Lyons, "Our Increasing Public Expenditures," in C. J. Bullock, *Readings in Public Finance*, p. 64.

¹⁷Buehler, A. E. *Public Finance*, p. 74.

¹⁸Fagan and Macy, *Public Finance*, p. 9.

¹⁹Armistead, George, *Texas Tax Problems*, p. 5.

²⁰*Comptroller's Report for 1939*.

²¹*Appropriation Budget for 1938*.

²²*Ibid.*

²³*Appropriation Budget for 1938*, p. 244.

E. Texas needs a source of additional tax revenue which will meet the increased expenditures of our State government and at the same time will conform to the fundamental principles of good taxation.

1. Any plan of taxation, to be successful, requires application of the canons of good taxation, which are a primary need of any tax plan.

a. Productivity.

(1) "Adequacy of revenue is the basic test of any tax."²⁴

(2) "The most important principle in taxation from the immediate and practical standpoint is that of adequate productivity."²⁵

b. Equity.

(1) "As nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State."²⁶

(2) "The tax system should be in harmony with the ethical, social, economic, and political standards of justice prevailing in the community."²⁷

(3) The tax burden should be fairly distributed among all classes so that the social costs of taxation will be spread justly.

c. Economy.

(1) "Economy in taxation calls for efficiency of administration. The cost of taxation, both fiscal and social, should be as low as possible."²⁸

(2) An important test of a good tax is the cheapness of its collection.²⁹

d. Certainty.

(1) "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributors."³⁰

(2) "The demand for certainty has been one of the cardinal rules of taxation."³¹

²⁴Buehler, A. E., *Public Finance*, p. 221.

²⁵Buehler, A. E., *Public Finance*, p. 221.

²⁶Adam Smith, *The Wealth of Nations*, Book V.

²⁷Buehler, *op. cit.*, p. 225.

²⁸*Ibid.*, p. 224.

²⁹Lutz, H., *Public Finance*, p. 339.

³⁰Adam Smith, *The Wealth of Nations*, Book V.

³¹Shinas, *Public Finance*, p. 220.

- e. Elasticity.
 - (1) "The returns from taxation should be subject to planning and control as revenue needs change."³²
 - (2) "An elastic tax system is needed, which may be expanded in a short time to supply larger revenues or may be contracted quickly to reduce receipts."³³
- 2. Other corollary principles of taxation are needed in a successful tax plan:³⁴
 - a. "Stability of yield is necessary for an adequate tax plan."
 - b. "Simplicity of structure and administration are required."
 - c. "Taxes should be levied in proportion to ability to pay."
 - d. "The tax should come more from income than from capital."
 - e. "The social end to be attained by the tax must be considered in choosing the kind of taxes to be levied."
 - f. "Taxes should be so chosen and spent as to further State development and to enhance social income and welfare."
- F. There is a need for an increase in natural resource taxation because no other major form of taxation can as nearly satisfy the requirements of good taxation principles.
 - 1. The sales tax violates all rules of good taxation.³⁵
 - a. It is the worst form of regressive taxation.
 - b. It is a tax on poverty.
 - c. The sales tax has been repeatedly turned down by the people of Texas and their representatives.
 - d. The sales tax is detrimental to business.
 - e. It is complex and costly to administer.
 - f. It produces an unstable yield of revenue.
 - g. It is socially detrimental to the people and their welfare.
 - h. Texas is not in so desperate a condition as to warrant the adoption of such an unjust and inequitable form of taxation as the sales tax.
 - 2. The adoption of a State income tax for Texas is inexpedient.

³²Buehler, *op. cit.*, p. 222.

³³*Ibid.*

³⁴The following principles are all from King, C. L., *Public Finance*, Chapt. XI.

³⁵The following arguments are taken directly and indirectly from *The Sales Tax*, University of Texas Bulletin No. 3838, by Rousse, T. A., and Hester, George C.

- a. The income tax field belongs primarily to the Federal government;³⁶ any State income tax is direct double taxation.
 - b. "The weaknesses and defects of a State income tax are real and grave."³⁷
 - c. "The yield of a State income tax is very uncertain from year to year."³⁸
 - d. "An income tax has a tendency to drive business away from the State. As long as some states tax income and others do not, the State without the income tax is naturally in a more favored position to attract new industry and retain the business it already has."³⁹
 - e. As of January 1, 1940, Federal income tax levies were greatly increased.⁴⁰
 - (1) Exemptions were lowered.
 - (2) Surtax rates were increased.
 - (3) A 10% supertax was added over all.
 - (4) The increase burden on the Federal income tax payer is expected to be approximately one-half billion a year.
3. An increase in the ad valorem property tax is highly undesirable.
- a. The property tax is already at the constitutional limit.⁴¹
 - b. "That the property tax is already too high to be borne is shown by the fact that 25% of all property taxes are delinquent."⁴²
 - c. "The gravest weaknesses of the general property tax are inherent, for the tax is fundamentally impractical and inequitable."⁴³
 - d. "State constitutions may declare that property shall be assessed uniformly at its fair value, but in practice such ideal uniformity never exists."⁴⁴
 - e. "Practically, the general property tax as actually administered is beyond all doubt one of the worst taxes known in the civilized world."⁴⁵
 - f. The general tendency in Texas has been toward a reduction or complete abolition of the State ad valorem tax, rather than an increase.

³⁶Lutz, *op. cit.*, p. 467.

³⁷Simons, H. C., *Personal Income Taxation*, p. 25.

³⁸Jensen, J. P., "Tax Studies," *Reference Shelf*, VIII, p. 179.

³⁹*Ibid.*, p. 179.

⁴⁰*Associated Press Report*, Washington, June 25, 1940.

⁴¹Raymond Brooks, *op. cit.*, p. 16.

⁴²Haig and Shoup, *The Sales Tax*, p. 770.

⁴³Buehler, *op. cit.*, 281.

⁴⁴*Ibid.*, 283.

⁴⁵Seligman, E. R., *Taxation Essays*, p. 23.

4. Special luxury and excise taxes cannot be increased.
 - a. All luxuries are already highly taxed by both State and Federal governments; for example, taxes on cigarettes, gasoline, alcoholic drinks, theater admissions, automobiles.
 - b. The Federal government has just substantially increased the rate on many such luxury and excise taxes.⁴⁶
 - c. Most such taxes are "nuisance" taxes and are difficult to collect.
 5. Business and industrial taxes should not be increased.
 - a. Texas should not increase the tax burden on business and industry, as the State of Texas is in an early stage of its industrial and commercial development.
 - b. "If all persons are properly taxed under a personal income tax and if all things are taxed under a plan of property taxation, why should business activity as such be taxed?"⁴⁷
 - c. "Business enterprises already pay to local, state, and national governments a multitude of taxes which aggregate billions of dollars annually."⁴⁸
 6. No tax should be adopted or increased so long as a state has a more desirable method of taxation.
- F. Texas needs to increase its taxes on natural resources immediately in order to recover a share of her exploited resources commensurate with her natural economic heritage and the requirements for the welfare of her people.
1. Such a need is based upon a strong public policy and sound social theory.
 - a. "Property is not an absolute but a relative right. No man has a right to use, destroy, or waste his property to the injury of his fellow man."⁴⁹
 - b. "No corporation or individual has the right to tap underground reservoirs of oil and gas and permit such valuable resources to be wasted and lose their services to humanity."⁵⁰
 - c. "Since natural resources, accumulated by the slow development of the ages, are a heritage of the race and not merely of one generation, then certainly a

⁴⁶*Associated News Report, Washington*, June 25, 1940.

⁴⁷Lutz, H. L., *Public Finance*, p. 588.

⁴⁸Buehler, *op. cit.*, p. 445.

⁴⁹Vaughn, George, "The Severance Tax," *Bulletin of the National Tax Association*, Vol. VII, p. 245.

⁵⁰*Ibid.*

privilege tax by the State is justified on the sheer ground of self-preservation."⁵¹

2. Texas needs a method by which the State can recover and retain its rightful share of the natural resources being taken from its soil.
 - a. Our mineral resource reserves are limited and irreplaceable.
 - (1) The known oil reserves of Texas have been estimated at:⁵²
 - (a) 8,248,000,000 bbls. by the American Petroleum Institute.
 - (b) 6,868,000,000 bbls. by the *Oil and Gas Journal*.
 - (2) The estimated life of U.S. natural gas reserves, in terms of 1937 production of 2.37 trillion cubic feet, is about 28 to 30 years.⁵³
 - (3) N. E. McGowen, president of the American Gas Association, estimates the U.S. gas reserves of 66 trillion cubic feet would have a life of 25 years at the 1937 rate of withdrawal.⁵⁴

NOTE: For an excellent discussion of oil and gas reserves, see the Energy Resources Report, pages 131 to 139.

- b. The mineral resources of Texas are being drained from the earth at a very rapid rate.
 - (1) Since the first production of oil in Texas through 1938, over five and one-half billion barrels of crude oil have been produced in Texas.⁵⁵
 - (2) Since 1930 Texas has produced over three billion barrels of oil from her wells.⁵⁶
 - (3) 35,000 producing oil wells have already been abandoned in Texas as of January 1, 1939.⁵⁷
 - (4) At the current rate of exhaustion, the life of known Texas oil reserves has been estimated as of January 1, 1938 to be:⁵⁸
 - (a) 16.1 years by the American Petroleum Institute.
 - (b) 13.4 years by the *Oil and Gas Journal*.

⁵¹*Ibid.*

⁵²*Energy Resources and National Policy*, Part I, Sec. 2, p. 131, table 3.

⁵³*Ibid.*, p. 139.

⁵⁴*Ibid.*

⁵⁵*Minerals Yearbook*, U.S. Bureau of Mines, 1938.

⁵⁶*Important Facts About Texas Oil*, p. 9.

⁵⁷*Railroad Commission Reports*, 1939.

⁵⁸*Energy Resources and National Policy*, p. 140.

- (5) The natural gas reserves of the U.S. are estimated to be a supply of 28 to 30 years.⁵⁹
 - (6) Texas produced 891,750 million cubic feet of natural gas in 1937, 36.4% of all gas marketed in the U.S. that year;⁶⁰ and for 1938 the production totaled 882,740 million cubic feet.⁶¹
 - (7) The wastage of Texas natural gas has been stupendous. In 1934 the daily waste of gas in the Texas Panhandle field amounted to over a billion cubic feet a day. In 1937 over 91.3 billion cubic feet of gas was blown into the air in the Texas Panhandle.⁶²
 - (8) The total production of sulphur in the U.S. to 1937 was 38 billion long tons. In 1938 over 2,058,-939 long tons of sulphur were taken from Texas sulphur deposits.⁶³
- c. Despite the rapid exploitation of her natural resources, the State of Texas is receiving only a small proportion of their value in return through taxation.
- (1) Oil.
 - (a) The State gross production tax is only 2¼ % of value for oil selling in excess of one dollar per barrel and/or 2¼ cents per barrel for oil selling for one dollar or less.⁶⁴
 - (b) According to the oil companies' own report their total taxation on oil production for 1938 amounted to \$44,090,808⁶⁵ which is approximately 8% of the total value (\$550,-000,000)⁶⁶ of all oil produced in Texas for 1938.
 - (c) According to the same report the average tax per barrel on Texas crude oil production amounts to 9.3 cents⁶⁷ as compared to the average selling price of \$1.20 per barrel for 1938.⁶⁸

⁵⁹*Energy Resources and National Policy*, p. 188.

⁶⁰*Ibid.*

⁶¹*Report of Bureau of Economic Geology*, The University of Texas.

⁶²U. S. Bureau of Mines.

⁶³*Report of Bureau of Economic Geology*, The University of Texas.

⁶⁴Art. 7957a, *Revised Civil Statutes*, 1938 Supplement.

⁶⁵*Important Facts about Texas Oil*, Texas Mid-Continent Oil and Tax Association, Feb. 1939, p. 4.

⁶⁶*Ibid.*

⁶⁷*Important Facts about Texas Oil*, p. 4.

⁶⁸*Ibid.*, p. 14.

- (d) An analysis made by a group of members in the 46th Texas Legislature shows the total amount of taxes paid by Texas oil produced in 1937 to be 4.75% of the production value of oil taken from Texas reserves for that year.⁶⁹
 - 1. This includes the State gross production tax and both local and State property taxes.
 - 2. It does not include the State franchise tax or the pipeline regulatory tax.
 - (e) McFarland estimates the total production taxes levied on Texas oil for 1938 to be 7.75 cents per barrel.
- (2) Natural gas.
- (a) Natural gas is taxed at the rate of 3% of the market value "as and when produced,"⁷⁰ that is, value at the mouth of the well.
 - (b) The estimated total gross production tax paid on natural gas in the calendar year 1938 amounted to \$593,010;⁷¹ this gas had an estimated value at the wells of \$19,767,000 and a value at points of consumption of \$133,-486,000.⁷²
 - (c) McFarland estimates the total tax on natural gas to be \$.00137 per thousand cubic feet.⁷³ (This estimate includes ad valorem and gross production taxes.)
 - (d) The total gross production tax paid to the State Comptroller by natural and casing-head gas producers amounted to only \$653,-519 for 1938.⁷⁴
- (3) Sulphur.
- (a) The gross production tax rate on sulphur is \$1.03 per ton.⁷⁵ At the production figure for the calendar year 1938 of 2,058,939 tons⁷⁶ the total tax derived therefrom would be

⁶⁹A *Comparison of Oil Taxes—Texas, Louisiana, and Oklahoma*, by E. C. Morris, Joe Keith, John Bell, Jack Langdon, T. D. Wells, Jr., p. 2.

⁷⁰Art. 7047b, *Vernon's Texas Statutes*, 1938.

⁷¹Calculated from 3% of value at well, 1938.

⁷²Report, *Bureau of Economic Geology*, 1938.

⁷³McFarland, C. M., *A Comparative Study of Natural Resource Taxes in Texas, Oklahoma, and Louisiana*.

⁷⁴Comptroller's Report, p. 28, 1939.

⁷⁵Art. 4047, *Vernon's Texas Statutes*, 1938.

⁷⁶Report of *Bureau of Economic Geology*, The University of Texas.

\$2,120,707 as compared to a total market value of such production estimated at \$37,-060,802.⁷⁷

- (b) McFarland estimates the total State and local taxes on a ton of sulphur to be \$1.53⁷⁸ per ton as compared to a market value of \$18 per ton.⁷⁹

3. Texas needs a means by which it may insure the stability of its economic, social, and political institutions in the future.

- a. "What has laced this economy together and glossed it with boom is oil—Now a boom built on nothing more than raw materials is speculative and it may be short. It is speculative in the sense that a colonial economy is always at the mercy of forces beyond its control. And it is short in the sense that the basic sources may be doomed to slow exhaustion."⁸⁰

- b. "What, then, is Texas doing to defend itself against the shocks that periodically must fall upon a raw material economy?

"Is it taking the profits from the land and re-investing them into an industrial economy with a view to raising the standard of living and setting up a buffer against the world?

"That, obviously, is the ultimate task confronting the State."⁸¹

- (1) What will sustain the economy of Texas when her natural resources are gone? In 1939, 41.78% of Texas income came from mineral resources.⁸²
- (2) "Once removed, these resources move into other states and may enrich New York stockholders, but never again will they contribute to the support of our Texas institutions."⁸³
- (3) From what sources will Texas government get its revenue when our resources are depleted? How will our schools be maintained? How will a social security program be financed?

⁷⁷Calculated by author on basis of \$18 per ton market value, see *Verbatim Record of TNEC*, Vol. II, p. 444.

⁷⁸McFarland, C. M., *op. cit.*, p.

⁷⁹*TNEC Record*, p. 444.

⁸⁰"Texas," *Fortune*, December, 1939, p. 84.

⁸¹*Ibid.*

⁸²Texas Income Chart of Dallas Morning News, *Southwest Business*, March 1940, p. 16.

⁸³Hon. W. R. Poage, Congressman from Texas, in the *Congressional Record—Appendix*, Friday, Nov. 3, 1939, p. 2255.

- c. Obviously, Texas should reserve a sufficient share of its constantly diminishing resources to establish the basis for a social and economic order for the future.

- (1) It needs to establish and maintain research agencies; build better educational institutions; promote economic industrialization; and set aside reserves for future emergencies and necessities of its people.

II. THEREFORE, Texas should increase the tax on natural resources.

- A. A reasonable increase in natural resource taxes would easily and substantially meet the revenue needs of the State.¹

1. For each \$.01 increase per barrel of oil, the State would receive a total additional revenue of \$4,750,000.² Thus, a \$.04 per barrel increase would bring an annual revenue of \$19,000,000 to the State of Texas.
2. An increase of \$.01 per thousand cubic feet of natural gas produced would bring an added revenue of \$8,824,730 each year to the State of Texas.³
3. A tax increase of \$1.00 per ton on sulphur produced would yield an additional revenue of \$2,058,939 per year.⁴
4. The above increases on our major mineral resources would add almost \$30,000,000 to our present State revenue.

- B. Natural resource taxes bear a closer correlation to the principles of good taxation than any other tax or group of taxes which the State of Texas could levy.

1. No tax should be adopted or increased so long as a State has a more practical and desirable method of taxation.
2. The natural resource tax in Texas has proven itself to be:
 - a. Productive.

- (1) This is shown by the Comptroller's Reports on natural resource revenue for the past ten years.
- (2) A tax increase plan based on the present production figures of our three major natural resources clearly demonstrates the adequacy of such a tax method.⁵

¹The following tax rate increases are only suggestive as to what the increase should be; final determination of such rates should be made by each affirmative case in the constructive arguments.

²Based on the 1938 production figures as reported by The University of Texas Bureau of Economic Geology.

³*Ibid.*

⁴*Ibid.*

⁵*Infra*, sub-section A.

- b. Economical.
 - (1) Such a tax increase as proposed would use the present natural resource tax structure and methods; thus no new administrative machinery would be needed.
 - c. Elastic and Stable.
 - (1) The yield from our natural resource taxes has been relatively stable in the past.⁶
 - (a) Proration laws keep production of oil and gas at a fairly constant level.
 - (b) Sulphur production has been fairly steady over a period of years.⁷
 - (2) Yet, such taxes are of a nature that they can be easily varied to meet any change of condition or emergency.⁸
 - d. Equitable.
 - (1) The natural resource interests have been able to operate at good profits and constantly expand their assets under Texas laws and rates.
 - (2) Oil production in Texas accounts for approximately 31% of the State's income,⁹ but according to the industry's own reports¹⁰ oil production pays only approximately 19.3% of the total tax bill of our State and local governments. Taxation on resources should be proportional to income derived therefrom. (\$42,942,326 total taxes paid by oil production in 1937. \$222,234,090 total taxes (state and local) paid in Texas in 1937.¹¹)
 - e. The natural-resource tax is based on ability to pay.
 - (1) It is levied on gross production, that is, on gross income derived from the market value of the resource as produced.
 - (2) Thus, it is based on income rather than capital.
 - (3) It is proportional; the more oil produced and the more income received, the more the amount of tax.
3. An increase in natural resource taxes will provide a means by which Texas can reserve a larger share of her natural wealth commensurate with her economic heritage and the requirements of social welfare. Thus, the State can get more revenue from an industry of constantly

⁶See *Comptroller's Reports* for last 10 years.

⁷See Exhibit 374, p. 444, *TNEC Record*, Vol. II.

⁸Speech of State Comptroller George H. Sheppard delivered at 19th Annual Convention of Texas Oil and Gas Association, 1938.

⁹*Southwest Business*, March 1940, p. 16.

¹⁰*Important Facts about Texas Oil*, op. cit., pp. 4 and 7.

¹¹*Ibid.*

diminishing wealth to build a social structure and public institutions for the future.

- a. It can increase the permanent school fund and raise the standards of the school system.
 - b. It can provide for industrial research and promote building of industries which reproduce wealth rather than deplete it.¹² For example, agricultural conservation, cotton manufacturing, wool manufacturing, etc.
 - c. It can maintain an adequate social security system in the present and future.
4. Such a tax increase as proposed would provide a method by which the State can distribute the benefits of its natural resources over many generations in the future. Natural resources are the heritage of all Texans, and it is the duty of those in the present to conserve and use them for all Texans of the future.
 5. A sufficient tax increase on resources will insure Texas against the spectre of being barren of her mineral resources with no permanent compensation in return for them.
- C. Such a tax increase as proposed would not materially alter the economic advantages held by Texas natural resource production over other states.
1. Texas holds such a dominant status in U.S. oil production that her competitive position among oil-producing states would not be lowered.
 - a. Roughly, half of the total proven crude oil reserves of the U.S. are located in Texas.¹³
 - b. Texas accounted for over 40% of the nation's crude oil production in 1937.¹⁴
 - c. Oil is not produced in open competition but under a system of governmental regulation or proration.
 - (1) Each state is limited to a definite amount of production.
 - (2) Thus in 1935 Texas was allowed to produce 39.60% of the national total, while its nearest competitor was allowed only 20.73%.¹⁵
 - d. Texas can produce its oil more cheaply than other competing states. According to an official study of the U.S. Department of Interior, the cost of producing a barrel of oil (years 1927-1934) averaged for:¹⁶

¹²"Texas," *Fortune*, December, 1939.

¹³*Energy Resources Report*, p. 131.

¹⁴*Minerals Yearbook*, 1938, p. 824.

¹⁵*Ibid.*, 1937, p. 981.

¹⁶U. S. Department of Interior, *Report on Cost of Producing Crude Petroleum*, p. 27, table 10.

- | | |
|---------------------|-------------------|
| (1) Oklahoma | \$1.10 per barrel |
| (2) Louisiana | 1.13 per barrel |
| (3) Texas | .79 per barrel |
- e. Texas has an advantage over Oklahoma in the transportation rates for oil to the eastern seaboard and foreign markets; and equal rates with Louisiana.¹⁷
 - f. Texas has a production potential over two times greater than the rest of the U.S.
2. Texas holds a strongly superior position in the production of natural gas.
 - a. Texas furnished over 36% of all natural gas produced in the U.S. for 1938.¹⁸
 - b. The Texas Panhandle field is the largest gas reservoir in the world.¹⁹
 3. In 1936 Texas produced 85% of the world's supply of sulphur. There is practically no competition in the production of sulphur as it is under monopoly control.²⁰
- D. The difference between average cost of production per unit and the average selling price per unit of Texas' three major mineral resources is sufficient to allow for the tax increase proposed.
1. The average cost of producing a barrel of oil in Texas was found to be \$.79 per barrel.²¹ The average selling price for the year 1937 was \$1.16 and for 1938 \$1.10 per barrel.²²
 2. In 1938, Texas natural gas production was valued at the well at \$19,767,000 and sold for \$133,486,000 at points of consumption.²³ The State tax revenue on such production amounted to only \$653,519 in 1939.²⁴
 3. In 1937 the selling price of sulphur was \$18.00 per ton;²⁵ the average cost of production per ton was \$5.93 for Freeport Company and \$5.18 for Texas Gulf Company.²⁶
 - a. In the past 20 years Texas Gulf Sulphur has made a net profit of over \$165,605,736.²⁷
 - b. The State gross production tax on sulphur is only \$1.03 per ton.
- E. An efficient and equitable tax plan can be easily worked out as a basis for the proposed tax increase.

¹⁷Poage, W. R., *Congressional Record*, Nov. 3, 1939.

¹⁸*Important Facts about Texas Oil*, op. cit., p. 22.

¹⁹*Ibid.*

²⁰Montgomery, R. H., *The Brimstone Game*.

²¹*Report on Cost of Producing Crude*, p. 27.

²²Thompson, E. O., *An Administrator's Views on Oil Proration*, p. 2.

²³*Report of Bureau of Economic Geology*.

²⁴*Comptroller's Report*, 1939.

²⁵*TNEC Record*, Vol. II, p. 443.

²⁶*Ibid.*, p. 444.

²⁷*Ibid.*, p. 428.

1. The present tax structure for State natural resource taxation could be used as a basis for the proposed increases.
2. A tax-rate schedule based on the productivity of oil wells could be adopted.
 - a. Under such a plan, complete exemption or a smaller tax increase for stripper wells, or marginal producers, would be allowed.
 - b. "According to the Railroad Commission of Texas there were on October 1, 1939, a total of 88,934 producing oil wells in the State. Of this number 35,758, or 40.18% were marginal wells, and while they were allowed to produce to capacity, the total number of marginal wells produced only 125,009 bbls. daily in 1938, or 5.9% of the state's total production."²⁸ Thus, if the marginal producer's tax rate was not increased at all, this would mean only an approximate 6% decrease in revenue of the proposed plan.
 - (1) Such an exemption would amount to only \$285,000²⁹ annually on each \$.01 per barrel tax increase.
 - (2) Thus, the marginal producer would operate under the same production conditions as before, so far as State taxation would be concerned.
3. Practically all Texas sulphur is produced by a monopolistic combination of two giant corporations, so no differential would be needed here.

III. THEREFORE, Texas should increase the tax on natural resources.

- A. A reasonable tax increase on natural resources would easily and substantially meet the revenue needs of the state.
- B. The natural resource tax satisfies the requirements of good taxation principles.
- C. No other form of taxation can as nearly satisfy the principles of good taxation.
- D. An increase in natural resource taxes will provide a means by which Texas can reserve a larger share of her natural wealth commensurate with her economic heritage and social welfare.
- E. Such a tax increase as proposed would not materially alter the superior economic position of Texas natural resource production.
- F. An efficient and equitable plan for the increase could be easily worked out and put into operation.

²⁸Page, W. R., *op. cit.* According to a report of the Railroad Commission for the week of July 13, 1940, approximately 10% of the state's total weekly oil production was produced from marginal wells.

²⁹Calculated on 1938 production figures.

NEGATIVE BRIEF

I. TEXAS SHOULD NOT INCREASE THE TAX ON NATURAL RESOURCES, for

A. There is no need for the State of Texas to increase its revenue, for

1. The new revenue needed by the State is relatively small.
 - a. Estimates based on statistics from the Department of Public Welfare show the following amounts will be needed annually for Texas Social Security needs:¹
 - (1) \$4,600,000 for old-age pensions.
 - (2) \$2,600,000 for teacher retirement.
 - (3) \$1,500,000 for dependent children.
 - (4) \$400,000 for aid to needy blind.
 - (5) A suggested \$500,000 per year to meet accumulated payments of the teacher retirement fund, which thus far the State has failed to do.
 - (6) Thus, approximately nine to ten million dollars annually would meet our present Social Security needs.
 - b. Texas could allow additional expenditures of 2 or 3 million dollars for reasonable increases in our State educational, health, eleemosynary, and safety requirements.²
 - c. The general revenue deficit of \$18,983,514³ could be paid off at the rate of a million dollars a year.
 - d. Thus, the total new revenue needed by the State is less than 15 million dollars yearly, based on a very liberal estimate.
2. The collection of delinquent taxes owed to the State would aid materially in meeting the financial obligations of the State.
 - a. The solvent delinquent taxes due the State of Texas, which are legally collectible, amount to \$31,613,466.⁴
 - (1) The collection of a major portion of this amount would easily meet the deficit in our general fund.
 - b. The presence of such unpaid taxes is detrimental to public policy, both financial and social.

¹Based on Reports of Department of Public Welfare and Constitutional Provisions for Social Security.

²*Budget Report* for 1938, State of Texas.

³Report of Comptroller, 1939.

⁴Report of State Auditor on Taxes and Indebtedness of Local Units of Government for the year 1938.

- (1) Those who conscientiously pay their taxes resent the escape by others of their share of the tax burden.
3. The State of Texas could save a substantial portion of its revenue by adopting a program of constructive economy in state administration and expenditures.
 - a. "No new forms of taxation until such time as the tax money now being collected is honestly and efficiently expended."⁵
 - b. Economy in taxation applies to the manner in which state revenue is spent as well as how it is collected.
 - c. Waste and inefficiency in Texas government cost the taxpayers millions of dollars annually.
 - (1) The extent of this needless waste and inefficiency was shown in an official report made to the State Legislature by a special investigating committee.⁶
 - (2) It was reported that our governmental administration is being carried on in a haphazard manner by a disorganized structure of boards, bureaus, and commissions.
 - (3) "In all the important phases of financial administration the State of Texas is surprisingly weak. The State just has not the tool of efficient and financial management, and the result is chaos in financial affairs. The Legislature must proceed on a hit-or-miss basis, and the wonder is not that the financial position of the State is as bad as it is, but that it is not much worse."⁷
 - d. A constructive plan of reorganization for Texas government has been proposed as a result of the report of the Joint Legislative Committee which would save the State an estimated 5 to 7 million dollars annually. This plan was formulated by Judge H. N. Graves of the Texas Court of Criminal Appeals. Judge Graves, a former member of the Texas House of Representatives, was chairman of the Joint Legislative Committee on Organization and Economy named by the Legislature in 1931. This committee made a 13-volume report, and the plan advocated is based on the committee's recommendations from the report.⁸

⁵Arnold, F. G., Pres., Nebraska Federation of Taxpayers.

⁶Giffenhagen Report, Joint Legis. Committee on Organization and Economy, 1931.

⁷*Ibid.*

⁸This plan has been presented to the Legislature in the form of a bill, but no action has ever been taken on it.

- e. Other states have profited by reorganization plans, and savings have been used to meet governmental needs rather than continued increases in taxation:⁹
 - (1) Virginia adopted a plan of reorganization which brought about a savings of \$3,964,000 in two years.
 - (2) Nebraska saved over 100 million dollars in ten years by an economy program in state government.
 - (3) Idaho reduced its expenditures by 20% through reorganization.
- f. Texas could save further money by abolishing the costly "spoils" system of state employment and substitute an efficient civil service system.
- g. The money being wasted in such inefficient governmental operations could be used to meet the financial needs of the State.
- h. Texas can limit the burden of its taxpayers by adopting a sensible policy of economy toward the State's constantly increasing expenditures.
 - (1) Texas expenditures have increased tremendously in the past few years.
 - (a) During 1924-37 Texas government costs rose 184%; tax collections increased 140% during this period.
 - (b) For 1935 total expenditures for the State were \$111,175,509; for 1939 they were \$164,323,499.¹⁰
 - (c) "The figures show that public expenditures have increased more rapidly than population."¹¹
 - (2) The State can always find new means of spending additional revenue and thereby increasing the tax burden upon its citizens, but the real question is—Shall there be any limit on the tax burden which the people of Texas must bear?
 - (a) The mere fact that additional revenue *could* be spent is no justification for increasing our State tax burden.
 - (b) The attitude of numerous "pressure groups" within our state who wish to "plunder" and "raid the treasury" is responsible for the

⁹See the financial reports of these states.

¹⁰*Comptroller's Reports.*

¹¹Buehler, A. G., *Public Finance*, p. 74.

abnormal tax increases of our State government; such a policy, if continued, will eventually bankrupt the State and its people.

- (3) Therefore, the State of Texas should first refuse to continue a policy of needless and exorbitant spending; then if more revenue is needed an increase could be effected by adopting a policy of economy in administration.

B. The increase of natural resource taxes would be an unwise and detrimental tax policy for Texas to adopt.

1. Such an increase would be economically unsound, as it would endanger the economic stability of Texas' natural resource industries.

- a. The natural resource industries are now paying a tremendous tax bill, to which any new increases must be added.

- (1) According to the sulphur companies, the industry paid a total of \$2,948,605.03 in State and county taxes, an average of \$1.77 a ton.

- (2) Oil

- (a) In 1938 the Texas oil producers paid over 44 million dollars total State and local taxes, an average of 9.3 cents per barrel.¹²

- (b) Gross production taxes on Texas crude oil have increased nearly 14 million dollars since 1933.¹³

- (c) An exhaustive survey made by the Texas oil producers showed that their ad valorem tax bill in 1938 totaled over 24 million dollars.¹⁴

- (d) "The average oil well in Texas in 1937 paid State and local taxes which were equivalent to the market value of 30 days' working interest production. Counting Federal levies it was 40 days. Thus, it is apparent that taxes constitute an over-riding one-eighth royalty."¹⁵

- (e) In several oil-producing districts the total taxes average over 11 cents per barrel, and some operators pay as much as 15 cents per barrel.¹⁶

¹²*Important Facts About Texas Oil*, 1939, p. 4.

¹³*Ibid.*

¹⁴*Ibid.*

¹⁵*Report of Tax Committee to 19th Convention of Texas Mid-Continent Oil and Gas Association.*

¹⁶*Important Facts about Texas Oil*, 1939, p. 5.

- (3) Natural gas and casing-head gas companies paid \$653,519 alone in State production taxes in 1939, according to the Comptroller's report.
- b. The producer's margin of profit, which has become progressively smaller will be further reduced by any increase in oil taxes to the point where the economy of oil production will be endangered.
- (1) The tax burden on Texas oil has steadily increased:¹⁷

Year	Average tax per barrel
1935	7.6
1936	8.1
1937	8.4
1938	9.3

- (2) Production costs have increased.
- (a) Texas drilling costs have increased from an average cost per well in 1927 of \$17,777 to an average of \$26,000 in 1938.¹⁸
- (b) Texas oil is being produced in 1938 from an average depth of 4000 feet compared to an average of 2500 feet in 1926-31.¹⁹
- (c) Oil well equipment has increased 23% above 1932 prices.²⁰
- (d) "During the past four years wage rates of representative classes of oil field employment in Texas has increased over 18%."²¹
- (3) Proration has reduced the average revenue of producing wells.
- (a) "Proration of oil productions effects a materially greater unit tax cost per barrel as well as causing all other operating and overhead costs to show a substantial increase."²²

- (b) Texas proration figures:²³

Year	Per well allow	Price	Per well revenue
1937	19.4	\$1.16	\$7,685
1938	15.0	1.10	6,029
1939	14.4	.97	5,094

¹⁷Report from Texas Mid-Continent Oil and Gas Association.

¹⁸*Important Facts*, op. cit., p. 13.

¹⁹*Ibid.*

²⁰*Important Facts*, op. cit., p. 13.

²¹*Ibid.*

²²*Ibid.*, p. 14.

²³Thompson, E. O., *An Administrator's Views on Oil Proration*, p. 2.

"This is a picture of a steady shrinkage in the total revenues of oil producers in Texas and a still more rapid decline in per well revenue."

- (c) "The average per well cost is around \$25,000. From the \$5,094 (per well revenue) must be deducted the eighth royalty, operating costs including taxes. If one should subtract a 5% interest charge, the balance, if continued, will pay out in between ten and fifteen years. However, we can assume that the per well revenue will drop again in 1940 and still further in 1941. A very slender margin is left in 1939 for capital return."²⁴
- c. The Texas natural resource market, which has been greatly reduced because of the European war, will be further reduced by an increase in taxes.
 - (1) According to Chief Supervisor John E. Taylor of the Oil and Gas Division of the Texas Railroad Commission, "It is apparent that Texas' most pressing problem for some years will lie in the discovery of markets rather than new fields."²⁵
 - (2) As of July 4, 1940, the foreign demand for petroleum and petroleum products has been cut in half over the same period of 1938-39.²⁶
 - (3) In accordance with the laws of supply and demand, an increase in taxes on Texas oil will reduce the markets for our oil to an even greater extent.
 - (4) The price of sulphur has dropped to \$16 per ton as a result of a decreasing market.
 - (5) Texas resource markets are in a depressive state; therefore, the policy of our State government should be to help alleviate this situation, rather than make it worse by adding new and heavier tax costs upon the producers.
- d. An increase in taxes will lower the competitive position of Texas' natural-resource producers as to those of other states.
 - (1) Comparative estimates of taxes on natural resource production in Texas, Louisiana, and Oklahoma are as follows:

²⁴Thompson, E. O., *op. cit.*, p. 3.

²⁵As reported in *Dallas News* of May 14, 1940.

²⁶Report of U. S. Bureau of Foreign and Domestic Commerce.

(a) McFarland²⁷—(total State and local)
Texas Oklahoma Louisiana

.0775	.0613	.0807	oil per bbl.
.00137	.00088	.003	gas per M.
1.03		1.03	(gross production only) sulphur per ton
.50		?	(local) sulphur per ton

(b) Texas Mid-Continent Oil and Gas Association²⁸

Oil (Total State and local).

Texas 9.3c per bbl; Okla. 8.4c per bbl.; La. 8.9c per bbl.

- (c) Thus, any substantial tax increase will either serve to destroy any tax advantage Texas industries have, or put them at a greater competitive disadvantage than they are now.
- (2) "Texas oil producers have lost over 68 million barrels of their normal market in the last two years to other states with lower taxes."²⁹
- (3) Texas natural resources, like any other Texas products, must compete in world markets with all other U.S. and foreign production.

(a) Thus, it is no more logical to put a tax disadvantage on Texas oil, gas, or sulphur than on Texas cotton or wheat.

(b) "Texas oil operators cannot pass increased tax costs on to the consumer by increasing the price of oil, because the price of oil is controlled by the law of supply and demand, on a nation-wide basis, and Texas oil must sell in competition with oil from other states. We are already paying a higher oil tax than any other state, which means that Texas operators must absorb the difference in cost which the tax creates."³⁰

e. An increase in oil taxes will tend to destroy the small marginal producer or "stripper well."

²⁷McFarland, C. M., *A Comparative Study of Natural Resource Taxes in Texas, Oklahoma and Louisiana*.

²⁸Texas Mid-Continent Oil and Gas Association.

²⁹According to Texas Mid-Continent Association, figures based on Railroad Commission Report.

³⁰McGaha, C. P., Address of President before 19th Annual Convention of Texas Mid-Continent Oil and Gas Association, p. 15.

- (1) 59% of all producing oil wells in Texas are in the pumping or stripper class. Outside the East Texas field 75% of all wells are stripper wells.³¹
 - (2) In 1937, "over 20,000 pumping wells in the State paid in State and local taxes an average of \$118 while the average net profit left for the stripper well producer amounted to only \$25."³²
 - (3) "The average daily production of all producing oil wells in Texas today is about 15 barrels. The daily production of pumper wells averages about seven barrels, and at least 23,000 of these wells only average about three barrels per day."³³
 - (4) "Any increase in taxes on oil must necessarily result in the abandonment of many stripper wells which cannot survive increased costs and which may not survive the present level of costs."³⁴
 - (5) Therefore, a tax increase which will destroy the strippers' slight profit margin forces such producers to abandon their wells.
2. An increase in natural resource taxes would be socially unsound and detrimental to the welfare of the State as a whole.
- a The natural resource industries are vitally important to the social and economic welfare of the State.
- (1) 41% of our State income is derived from our mineral resources.³⁵ In 1938 the production of the three major resources were valued at:
 Oil—\$539,000,000.³⁶
 Gas—\$133,486,000 (at points of consumption).³⁷
 Sulphur—\$37,060,802.³⁸
 - (2) According to Senator Morris Sheppard of Texas, "The petroleum industry is the most important one in my own State of Texas. The value of oil produced in that State exceeds the value of all the crops produced in Texas. It is the most important single item in our economic life."³⁹

³¹Important Facts about Texas Oil, p. 17.

³²Report of Tax Committee to 19th Convention, Texas Mid-Continent Oil and Gas Association, p. 31.

³³Report of Tax Committee to 20th Convention, Texas Mid-Continent Oil and Gas Association, p. 25.

³⁴Ibid.

³⁵"Texas Income Chart," *Southwest Business*, March, 1940, p. 16.

³⁶Report of Bureau of Eco. Geology, The University of Texas.

³⁷Ibid.

³⁸Calculated on 1938 production report to Comptroller.

³⁹Brief filed before Committee on Trade Treaties, Washington, D.C.

- (3) Oil and gas are produced in 134 Texas counties, while exploration activity is being carried on in 106 others.⁴⁰
- (4) "Forty-five million acres of land are under lease in Texas. Annual lease and royalty payments in Texas amount to 105 million dollars annually."⁴¹
- (5) Many allied industries in Texas are based upon the production of our natural resources.
 - (a) Refined products of crude oil manufactured in Texas during 1938 were valued at 157 million dollars.⁴²
 - (b) 79% of all Texas oil is refined in Texas; 76% of all natural gas produced is consumed in Texas.⁴³
 - (c) Natural gasoline valued at 12 million dollars was produced in Texas in 1938.⁴⁴
 - (d) Over 9 million dollars worth of carbon black was produced in Texas in 1938.⁴⁵
- (6) "At least one-sixth of all the people in Texas obtain their livelihood from the petroleum industry."⁴⁶
- (7) According to the Texas Mid-Continent Association, the Texas petroleum industry spent a total of 755 million dollars in Texas during 1938.⁴⁷
- (8) Over two million tons of sulphur were produced in Texas for 1939.⁴⁸
- (9) Thus, if industries so important to a state's welfare as natural resources are to Texas, are materially harmed through a policy of reckless and ruinous taxation, the very economic and social foundation of the State will be undermined.
- b. An increase in natural resource taxes will hinder the industrial development of Texas.
 - (1) Any progress in the industrialization of Texas must necessarily begin with the utilization of our natural resources.
 - (2) "The growing population of Texas and its resource pattern demand that we not reduce raw

⁴⁰*Important Facts About Texas Oil*, p. 3.

⁴¹*Ibid.*, p. 3.

⁴²*Ibid.*, p. 17.

⁴³*Ibid.*, p. 17.

⁴⁴*Ibid.*, p. 22.

⁴⁵*Ibid.*, p. 23.

⁴⁶*Ibid.*, p. 11.

⁴⁷*Important Facts about Texas Oil*.

⁴⁸Report of Bureau of Economic Geology, The University of Texas.

material production but rather that we supplement that with an industrial economy."⁴⁹

- (3) A heavier tax burden on natural resources will hinder the further exploration of our new mineral reserves.

(a) "A total of 186,000 wells have been drilled in Texas. Fifty million acres of Texas land, approximately one-third of the total area of the State, are under lease to the oil man for exploration and development. To date, more than four million acres of Texas land have proven productive of oil and gas—the largest amount of productive oil land area in the world."⁵⁰

(b) "The conclusion is that something else must be the major factor in causing Texas drilling to drop, and the almost inescapable conclusion is that it is the continual increase in taxes on the Texas oil man."⁵¹

- (4) An increase in taxation which prevents the expansion of natural resource industries and raises the cost of production on Texas raw materials will likewise hinder the development of industries based upon the production of the State's natural resources.

- (5) "Encouragement of new capital and the incentive to reinvest returns from invested capital are prime requisites to the success of any state program of industrialization. What has been accomplished within the past seven years by the Texas petroleum industry furnishes a conspicuous example of what may be accomplished by an unoppressive and wisely administered government."⁵²

- (6) Thus, Texas should follow a policy of taxation that will encourage industrialization rather than seek means of increasing the already heavy tax burden.

C. Any increase in natural resource taxes will have to be paid largely by the employee in the form of reduced wages.

1. The Texas oil industry pays a higher wage scale than any other Texas industry. "Weekly payroll statistics

⁴⁹Rainey, H. P., Address before 20th Convention of Texas Mid-Continent Oil and Gas Association.

⁵⁰Moss, H. S., *Southwest Business*, May, 1940.

⁵¹*Ibid.*

⁵²McGaha, *op. cit.*, p. 11.

compiled by the Bureau of Business Research, The University of Texas, show that wages paid by the oil industry held top rank among all industries in the State."⁵³

2. As the other elements of cost of production are fixed charges, the wage scale must be reduced to allow for further tax burdens. "—Operating expenses consist of material and supply expenses—and of wages. There is ample justification for concluding that the entire amount of any increase over present tax levies will be paid out of money that would otherwise go to employee wages."⁵⁴
 3. Any reduction in wages means a lowered standard of living and consuming power of the employees in the resource industries.
- D. Therefore, a tax policy which tends to harm the vital industries of Texas and their development must necessarily and directly lower the social welfare of the State as a whole.
1. An increase of taxes on natural resources would be an unjust and inequitable tax policy for Texas to adopt.
 - a. The Texas natural resource industries are now the principal source of all our tax revenues.
 - (1) In 1938 mineral resources paid half of the total tax revenue of the State government.⁵⁵
 - (2) Mineral resources pay nearly 30% of all local taxes in Texas.⁵⁶
 - (a) Petroleum (oil and gas) alone paid \$38,417,208 in local taxes for 1938, or 27.5% of all local taxes.⁵⁷
 - (b) In forty counties with oil production, oil alone pays an average of 68.4% of all local taxes.⁵⁸
 - (3) Natural resources pay over one-fourth of all taxes used for school purposes in Texas.⁵⁹
 - (a) Petroleum alone paid \$21,915,000 in taxes for the support of Texas schools in 1938, representing a payment of \$14.14 for each Texas school child.⁶⁰
 - (b) In forty independent school districts with oil production, oil pays an average of 80% of

⁵³McGaha, *op. cit.*, p. 13.

⁵⁴Nicholson, C. E., *Discussion on Oil Company Employee Wage Tax*.

⁵⁵Report of Texas Mid-Continent Oil and Gas Association.

⁵⁶*Ibid.*

⁵⁷*Ibid.*

⁵⁸Report of Texas Mid-Continent Oil and Gas Association.

⁵⁹*Ibid.*

⁶⁰*Ibid.*

all school levies including the State apportionment.⁶¹

- (c) The school taxes paid by the oil industry are equal to the average yearly salaries of more than half of all Texas school teachers.⁶²
- (4) The permanent school fund has derived a major portion of its revenue from natural resource industries; this fund now totals \$63,179,571.⁶³
- b. Thus, it is unjust to expect industries which are carrying a major portion of the tax burden to accept the total new tax demands of the State.
 - (1) Any tax increase for the general revenue needs of the State should be levied upon all taxpayers as a whole, rather than on any one taxpaying group alone.
 - (2) Such a punitive policy of taxation as proposed is contrary to all principles of equity in taxation.
- E. Therefore, Texas should not increase the tax on natural resources, because
 - 1. There is no need for an increase in state revenue.
 - 2. Such a policy would be economically detrimental to the resource industries.
 - 3. Such an increase would be detrimental to the welfare of the State as a whole.
 - 4. Such an increase would be contrary to equity in taxation.

⁶¹*Ibid.*

⁶²*Ibid.*

⁶³Report of Comptroller, 1939.

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GENERAL READING MATERIAL

Excerpt from

ADDRESS OF DR. HOMER P. RAINEY,
President of The University of Texas

Twentieth Annual Convention of Texas Mid-Continent Oil and
Gas Association, 1939

. . . Let us then briefly analyze the source of employment and income in Texas to see more clearly just where we are in our economic development.

The course of progress in Texas which I have so briefly described has meant far-reaching changes in both avenues of employment and sources of income for Texas people, as will be shown by the following brief statement of the major resources of employment in Texas and the trends of employment in each major line. As recent as 1900, 62.4 per cent of the gainful workers ten years of age and over in Texas were employed in agriculture. This proportion dropped to 60.0 per cent in 1910, to 46.2 per cent in 1920, and to 35.1 per cent in 1930. It is possible this percentage may drop to 30.0 by 1940; at least the probable low farm cash income in the State would justify such a low figure for numbers employed. Employment in agriculture reached its peak in Texas as far back as 1910 when 934,140 persons were employed. In 1930 the number employed in agriculture was only 841,540.

While agriculture in Texas has declined both as a source of employment and of cash income, other lines of employment have fortunately increased by leaps and bounds. In 1900 only 7.8 per cent of the gainfully employed in Texas were in manufacturing and mechanical industries. In 1910 that per cent was 11.8, increased to 15.6 per cent in 1920, and to 17.5 per cent in 1930. This represents a growth in actual numbers employed in manufacturing and mechanical industries from 80,176 in 1900 to 325,307 in 1930. In other words, while employment in agriculture was actually reduced about ten per cent from 1910 to 1930, employment in manufacturing and mechanical industries increased 380 per cent from 1900 to 1930.

Trade, transportation, and communication have also proven to be important sources for increased employment in Texas. In 1910 these sources of employment accounted for 12.6 per cent of the gainfully employed in Texas, in 1920, 16.7 per cent, and 19.2 per cent in 1930.

Service occupations, including domestic, professional, and public, accounted for 19.0 per cent of the gainfully employed in 1900, 14.9 per cent in 1910, 19.7 per cent in 1920, and 23.4 per cent in 1930.

Cash income in Texas, not including various governmental pay rolls, is now about \$2,500,000,000, or only slightly less than what it was prior to the depression. This does not mean there have been no significant changes in the source of that income. The fact is, there have been profound changes in sources of income in Texas which are in turn changing fundamentally the whole economy of the State. For convenience of analysis, the income of the State may be classified as coming from three sources: (1) agriculture, including crops and livestock; (2) minerals; and (3) manufacturing and commerce. In 1929, the earliest date for which there are comparable figures, agriculture furnished about \$662,000,000 out of a total State income of about \$2,583,000,000, or 25.6 per cent; minerals yielded about \$496,000,000, or 19.2 per cent; and commerce and manufacturing yielded about \$1,425,000,000, or 55.2 per cent. By 1938, the last year for which we have figures, agriculture, including about \$68,000,000 of governmental subsidies, yielded only \$471,000,000 out of a total of about \$2,495,000,000, or 18.8 per cent; minerals, \$804,000,000, or 32.2 per cent; and commerce and manufacturing, \$1,220,000,000, or 51 per cent.

The tremendous growth in the volume and variety of raw materials production in Texas has been made possible not only by its incomparable advantages for such production, but equally as important has been the existence of a strong, accessible national and world market for all that could be produced. The fact is that over ninety per cent of our cotton, our major enterprise, found its market in foreign countries. What has been said of cotton is more or less true of our major raw materials such as oil, sulphur, wool, mohair, natural gas, and other products.

The State is now threatened with the permanent loss of considerable of these markets. This is not only falling heavily on the producers of these commodities, but is affecting as vitally the processors and merchandisers of the commodities and a host of service occupations and industries either directly or indirectly. Indeed, the whole economy of the State is involved and seriously threatened. Far-reaching adjustments must be made if Texas is to continue its upward course of progress.

This brings us to a consideration of the most profound question confronting the people of Texas, and that is what changes do we need to make in our economy to meet the new conditions which we are facing?

It is obvious that the economic life of Texas has been mainly a colonial economy, dependent upon outside markets to take its vast volume of surplus produce, dependent upon the northeast for the vast amounts of capital to develop its great resources, and dependent more or less upon outside organizations to supply managerial

ability necessary to carry on the complex operations concerned with the growth of Texas industry and commerce.

The main thing that Texas contributes is its great potentialities for production. These potentialities comprise at once the promise of future development of Texas and the challenge of Texas institutions in contributing to this development with the aim of bettering the welfare of Texas people. In the light of current activities, I think you will agree that it is incumbent upon Texas leadership to have as broad a perspective of the State's problems and potentialities as is humanly possible. One essential of such a perspective is a competent knowledge of Texas—and this means more than a mere speaking acquaintance of the fundamentals of the State and its economic life; another essential is an appreciation of the economic life of Texas as an important item in the integrated economy of the nation as a whole.

We must recognize that a turning point has arrived in the growth of our American economy as a whole. The American industrial machine as a whole has been more or less at a standstill since 1929; American agriculture as a whole ceased its geographic expansion some two decades earlier. The dethronement of Texas cotton during the past decade exemplified one aspect of the change in international relations that has laid a heavy burden upon Texas agriculture; it has created a problem the substantial solution of which we have hardly begun to tackle. The cotton problem is not merely a Texas or even a Southern problem; rather it is one of a number of major national problems concerned in the recasting of the American agricultural situation. And the recasting of American agriculture is a problem fraught with great difficulties. American agriculture, I need not remind you, has been and is primarily a commercial agriculture, dependent upon disposal of great regional surpluses of cotton and wheat, of meat and animal fats. The alternative to the profitable disposal of these vast regional surpluses, in the nature of conditions, is to reduce the American farmer further toward conditions of peasantry.

Turning now to another side of the picture, the bright spot in Texas economy during the past decade has been the almost spectacular growth of the oil industry. With Texas' reserves of oil more than half of the nation's proven reserves, with revolutionary techniques being applied in oil refining, the immediate future of Texas economy is by no means a dark one.

But it is high time to take stock of what we have in Texas and to consider as never before how long we can depend upon mere exploitation of our oil and natural gas resources to carry us forward.

What I am leading to is this: We realize that Texas economy in the past has been dominantly an exploitative economy; we must

recognize that in the future conservation must be given the consideration the circumstances merit. It is obvious that conservation of our great natural resources must come to the forefront as one of the State's outstanding problems. It has been estimated by one of the economists of The University of Texas that "Computing our entire export of the past century to Europe, for each bale of cotton that has been shipped, one hundred and thirty tons of soil have been washed into the Gulf of Mexico." Conservation embraces a profound reëxamination first, of our material environment and natural resources; second, of the impact of an ever advancing technology designed to make our resources go farther and last longer; and lastly, of the institutional forces and factors—of education, government, business enterprise and the like—which have to do with the bringing of the greatest good to the greatest number of people.

Texas industry, and to a considerable degree the prosperity of Texas, in the past decade centers about oil. The exigencies of the situation demand, however, that we look beyond oil and natural gas as merely colonial industries. It is obviously impossible to deal in short space with changing trends in the American industrial scene. We have, however, been witnessing the growth of an industrial movement which bids fair to be the pathway along which American industry is to proceed during the next quarter of a century.

The pattern of American industry was woven under the aegis of the steam engine; it resulted in a vast agglomeration of industry in the Northeast, an agglomeration supported by vast sums of invested capital, an agglomeration which determined how and where new capital was to be invested, of how basing point systems and freight rates, to cite specific cases, were to be used to bolster up this vast concentration.

The result, in a nutshell, has been a lop-sided industrial structure, a lop-sided national economy, if you please; few will deny that this lop-sidedness has grown, or maintained itself, as the case may be, long after the factors which brought it into being have passed out of the picture.

But advancing technology and the large-scale use of new resources have wrought far-reaching changes in our industrial structure. One of the results has been the movement toward geographic dispersion of industry, commonly called decentralization of industry. We have been witnessing during the past decade, during the greatest depression in history, the steady sweep of American industry southward and southwestward. The gigantic paper industry is moving into the Southern timbered lands; we in Texas have witnessed the mighty advance of the oil industry in the Southwest. Heavy chemicals, for example, are moving into the Southwest, the great aluminum industry into the Southeast.

We are witnessing the remaking of the industrial map of the United States, and Texas and the Southwest are on the frontier of that movement.

Everyone knows that it was the so-called Western Movement that dominated the American economic scene during the nineteenth century—a movement which had spent its force by the turn of the century. The cessation of this movement marked the first great turning point in American economic growth, a turning point which I need not remind you marked also the beginning of a profound change in American foreign policy.

During the latter part of the past century the United States was becoming a great industrial nation, although that industrial growth was concentrated in the Northeast. Particularly, since 1910 American industry has been on the move and vast new industries have arisen; one thing we must remember about industry—if it is industry, it is dynamic; reduced to static conditions, industry dies.

It is too early perhaps to envision the full outlines of what American industry is becoming; it is certain, however, that American industry is still dynamic, that it is developing new fields, and that it is moving into new regions. And if logical sequences are to hold in the future we may draw the historical parallel that just as the Western Movement dominated American economic life during the nineteenth century, so the geographic dispersion of industry will lead American industry into new frontiers and thus become a dominant factor in American economic life in the remaining part of the twentieth century which remains before us.

And just as Texas development during the nineteenth century was dominated by the pushing back of one frontier zone after another in the conquest of the Prairies and Western Plains by the cattlemen and the farmer, just as the oil industry has spread its far-reaching effects over the entire State since 1900, it is the challenge to Texas and to Texas people that the frontiers of industry and the economic independence that industry brings in today's world be substantially extended in Texas and the Southwest.

So far I have traced briefly the course and extent of Texas economic development, and I have pointed out the material bases and potentialities for the development of the State in the years ahead.

The next stage in the progress of Texas, as I have already suggested, lies in the development of its great industrial and commercial potentialities which I have just briefly described.

The loss of markets for Texas raw materials since 1929 has undermined the base of its colonial economy; that is, an economy in which the people of the State are dependent for income primarily on the production of raw materials for sale in outside markets; and in which the State is largely dependent on outside capital,

business management, and technical scientists for development purposes. In such an economy the people are dependent also on outside sources for the manufactured goods they buy.

The growing population of Texas and its resource pattern demand that we not reduce raw material production, but rather that we supplement that with an industrial economy to provide a home market for a substantial proportion of our potential raw material production as well as our demands for finished goods. It is equally imperative that Texas train its own citizens as technical experts and business leaders to develop Texas potentialities rather than subsidize some other region for them and for their capital.

What I have suggested here will be no easy task. It will be the most difficult as well as the greatest economic achievement of the State. In an industrial economy the major activities are centered around the manufacturing of raw materials into finished production and consumption goods with their merchandising. It is an independent economy as contrasted with a colonial economy. In order to become this, Texas must make itself independent by providing a home market for a substantial part of its raw material production; it must manufacture a substantial portion of the manufactured goods it buys; it must train a preponderant proportion of its own technical men, skilled laborers and business executives, and furnish a large part of the capital required.

Industrial economy then does not mean simply more processing plants, for they are concomitants of a colonial economy and their growth is conditioned on increases in production of such things as cotton, wheat, oil, and other industrial raw materials for markets elsewhere. Growth and development of an industrial economy proceeds from a different point of view and has different objectives. It is based on the capacity of the people to create new products, finished goods, and to develop markets for those goods made of the raw materials turned out by the processing plants associated with a colonial economy. What I am trying to tell you is that before we can industrialize Texas we must create a new point of view, a redirection of the channels of thought of the people. In short, we must industrialize Texans before we can successfully industrialize Texas.

The people of Texas are agriculturally-minded. We look at the Texas landscape and think of it entirely in terms of its capacity to produce volume and qualities of livestock, cotton, corn, and other products. What I wish to point out and emphasize is that our life and thinking in Texas is wrapped up in how to grow things or how to get them out of the ground and into the market, which is to say, produce, process, and market raw materials.

Practically all of the money spent for research and extension teaching and promotion in Texas, whether by the State itself, the

county, municipality, or private agencies is concerned with these things.

It has been estimated that between 140 and 170 million dollars were spent for industrial research by private concerns in the United States during 1938, and that only between one and five per cent of the industrial research personnel in the United States were in Texas. Facts show that eighty-three per cent of the industrial research laboratories are east of the Mississippi River and north of the Ohio and that only ten per cent are in the South. These figures emphasize two very essential facts for our consideration; one is that industrial development and industrial research are closely linked together, and the other is that industrial development requires a large scientifically trained personnel to properly man industry and industrial research. These men ought to be trained and can be trained at The University of Texas if we can get adequate support for it.

TEXAS INCOME DISTRIBUTION

Minerals	41.78%
Oil	31.73
Other Minerals	10.05
Manufacture (Net)	23.92
Crops	16.74
Livestock	16.22

From "Southwest Business," March, 1940, p. 16.

News Report

PEOPLE HAVE TO PAY MORE TAXES OUT OF MUCH LESS INCOME

The following contrast between the peak year of the prosperity era and 1939 shows the decline of \$11,000,000,000 in national income and the increase of more than \$4,000,000,000 in taxation. The income of the American people was 15 per cent less per person in the year 1939 than it was in the year 1929. On a per person basis it was \$94 less.

Year	Population	National Income	Income Per Person
1929	121,500,000	\$79,500,000,000	\$617
1939	131,200,000	68,600,000,000	523

In taxation the American people in 1939 were paying 4 billion 240 million dollars more than they paid on their much higher income in 1929. The increase per person amounted to \$27, or, to 34 per cent.

Year	Population	Total Taxes Paid	Taxes Per Person
1929	121,500,000	\$ 9,760,000,000	\$ 80
1939	131,200,000	14,000,000,000	107

With national income 10 billion 900 million dollars below that of 1929 and taxation 4 billion 250 million dollars above that of 1929, there has been an increase of 83 per cent in the proportion of the national income which goes to taxes.

Year	National Income	Total Taxes Paid	Income Taken by Taxes
1929	\$79,500,000,000	\$ 9,760,000,000	12 per cent
1939	68,600,000,000	14,000,000,000	22 per cent

Since the national income per person had declined \$94 and since taxation per person has increased \$27, the net income per person in 1939 was \$121 less than it was in 1929.

Year	Income Per Person	Taxes Per Person	Net Income Per Person
1929	\$617	\$ 80	\$537
1939	523	107	416

The 43 per cent increase in taxation, from \$9,760,000,000 in 1929 to \$14,000,000,000 in 1939, still was insufficient to meet the amounts spent by government. As a result, since 1929 government debt (national, State, and local) has increased 30 billion dollars. Per person this is an increase of \$211, or 76 per cent.

Year	Government Debts	Population	Debt Per Person
1929	\$33,700,000,000	121,500,000	\$277
1939	64,000,000,000	131,200,000	488

—American Taxpayers' Assn., Inc.

STATE FISCAL SYSTEM—RECEIPTS AND EXPENDITURES

(From *The Texas Almanac and State Industrial Guide*, 1939-40, p. 292, published by A. H. Belo Corporation, Dallas, Texas)

The money which pays for the activities of the State Government of Texas is derived from a large number of sources and is paid into more than 100 separate funds maintained on the books of the State Treasurer. Like the administrative system, the fiscal system of the State is a complicated affair, which has been built up piece-meal under elaborate constitutional provisions. The State's budget is handled by the State Board of Control, which submits to each session of the Legislature an itemized statement of the needs of the various administrative, judicial, and legislative departments and subdepartments and also detailed recommendations for appropriations to State educational and eleemosynary institutions. These recommendations are made after hearings by the board. Legislature

may reject or accept these recommendations as it pleases, and many alterations are made, but in the main the budget prepared by the Board of Control guides the Legislature in its appropriations.

All appropriations are made by the Legislature subject to veto by the Governor. However, a good deal of spending is left to the discretion of various boards and commissions by blanket authority given by legislative enactment.

Formerly the State ad valorem tax was the principal source of revenue, but during the last twenty years it has dwindled to much less importance, and at present furnishes less than one-fifth of the State's total revenues. This has been partly due to the homestead exemption law which cut down available ad valorem tax sources, but it is due in greater degree to the rapid increase in revenue from other sources. The table at the end of this article shows comparative data on State expenditures for the fiscal years ended August 31, 1920, 1930, and 1938.

Sources of Revenue

There is an ad valorem tax set by the Constitution at a maximum of 35 cents on the \$100 valuation for the general revenue fund, from which appropriations for all general administrative purposes are made. There is an ad valorem tax with maximum limit of 35 cents for the available school fund, expenditures from this fund being for public school support and purchase of textbooks. There is also an ad valorem tax of 7 cents for the pension fund, which is disbursed to former Confederate soldiers and their widows.

There is a general business occupation tax, three-fourths of which goes to the general revenue fund and one-fourth to the school fund. (As much as one-fourth of all occupation taxes must, by constitutional provision go into the school fund.) There is a gross receipts tax derived largely from petroleum production, which is divided principally among general, school and relief bond funds; an insurance company occupation tax which goes three-fourths to general revenue and one-fourth to schools; a cigarette tax which goes two-thirds to the old-age assistance fund and one-third to the available school fund; a gasoline tax of 4 cents a gallon which goes three-fourths to the highway fund and one-fourth to the school fund.

There is also a poll tax of \$1 per capita to the school fund and 50 cents to the general revenue fund.

The inheritance and franchise taxes go entirely into the general revenue fund. Another source of State support is the apportionment of federal funds, notably to the State highway fund.

Many State Funds

There are more than 100 funds into which State revenues go for disbursement to the various departments and institutions. The

principal funds are (1) the general revenue fund, (2) the available school fund, (3) the highway fund, (4) the Confederate pension fund, (5) the old-age assistance fund, (6) the relief bond sinking fund. The largest increases in recent years, as shown by the table below are found in expenditures for highways, education, and pensions. Whereas expenditures for operation of the State administrative, legislative, and judicial branches of government constituted most of the expenditures thirty years ago, and a large portion eighteen years ago, they amounted to less than 10 per cent in the fiscal year ended August 31, 1938.

SPECIFIC FACTS ABOUT SPENDING GIVE BASIS FOR EFFECTIVE ECONOMY WORK

(The Taxpayer's Digest, Dallas, Texas)

Cost of operating the Texas State Government during the fiscal year ended August 31, 1939, was \$164,323,499.81. That is \$6,575,622 more than the State Government spent in the preceding year; it is \$53,147,900 more than the State's expenditures in the year ended August 31, 1935.

The question that immediately arises is whether the State Government spent too much money last year. That is something for the people of Texas generally to decide. They can return a reasoned answer to the question only if they understand just how the money was spent. This is something they need to know; it was *their* money, taken from them in the form of taxes, license fees, and so on. They have a right to be informed as to where the money went.

Here Are the Facts

This information is made available in the annual report of the State Comptroller, recently issued. This report shows the general purposes for which the State spent \$164,323,499.81 last year. It goes further and shows the specific purposes for which the money was expended. If there are places where economy efforts need to be applied in the conduct of the State Government, they can be brought to light through study of this report, for the document breaks down the total governmental cost in such a way as to give a clear picture—a picture of the utmost importance to the people of Texas.

By Government Functions

Here, first of all, is the Comptroller's summary of State expenditures by functions of government:

Purpose	Amount
Legislative	\$ 818,887.80
Judicial	2,354,460.57
Executive and administrative	2,349,807.47
Military and law enforcement	1,927,268.24
Regulation of business and industry	2,754,887.38
Conservation of health and sanitation	1,115,688.13
Development and conservation of natural resources	2,193,140.41
Highways	55,934,368.56
Eleemosynary and correctional	9,257,302.06
Educational	45,640,984.64
Parks and monuments	364,384.90
Public welfare (pensions, benefits and retirement)	35,515,550.72
Payment of public debt	4,047,253.84
Miscellaneous governmental cost	50,015.09

By Expenditure Object

This is the general picture. The table above shows how the State spent \$164,323,499.81 last year by functions of government. But the Comptroller's report gives more specific information. It lists the State's expenditures by object of expenditures—as follows:

Purpose	Amount
Personal services	\$23,063,245.86
Current charges	2,117,083.75
Travel expenses	1,794,386.43
Supplies, commodities, and miscellaneous operating expense	6,439,072.88
Repairs	550,474.58
Acquisition of property	3,900,633.73
Debt service	4,104,166.92
Pensions and benefits	31,855,985.42
Rural aid—school	5,719,098.14
School apportionment	28,154,365.75
Vocational aid	1,713,198.58
Highway construction and maintenance	44,830,203.45
Road bond retirements (principal and interest)	9,481,571.90
All other classifications	600,012.42

Broken Down Further

Even these specific expenditures are broken down still further by the Comptroller's report. Under the item of "personal services," for instance, the report shows that in addition to regular pay roll salaries of \$21,176,184 and wages for extra help of \$784,400, a total of \$361,089 was spent for professional services and fees, \$156,175 for judiciary fees of officials, and \$585,395 for salaries of county officials, which was prorated to counties.

Of the total of \$2,117,083 for current charges, the sum of \$439,182 went for rent on lands and buildings. The State Government, in other words, is spending close to half a million dollars yearly for rent, as well as maintaining numerous State-owned buildings. This

gives a clear idea of the extent to which the Government has expended in recent years.

The State spent \$447,528 for postage during the year ended last August 31. It spent \$237,322 for telephone and telegraph service; \$691,678 for heat, water, light, power, and ice; \$88,855 for freight, express, and drayage; \$89,265 for rent on office equipment, machinery, and furnishings; \$22,568 for laundry and towel services.

Traveling Expenses

Travel expenses constitute an important item in the State's cost sheet. The total of \$1,794,386 expended for this purpose was classified as follows: Fares, \$59,470; personal car allowance, \$1,065,565; hotel and room rent, \$234,556; meals, \$316,294; and other travel expense, \$118,499.

These figures do not tell the whole story in respect to the item of traveling expenses. In addition, the State spent \$80,780 in buying passenger cars and \$32,130 for other motor vehicles. It spent \$213,228 for gasoline, oil, and grease; \$31,508 for tires and tubes; \$88,635 for maintenance; \$8,633 for other automobile expense except repairs; and \$49,409 for repairs.

Of the \$31,855,985 expended for pensions and benefits, \$19,256,759 went for old-age assistance, \$11,235,186 for unemployment compensations, \$1,363,440 for Confederate pensions, and \$600 for Mexican War pensions.

A big item of expense under the classification of "Supplies, commodities, and miscellaneous operating expense" was printed material of various kinds. Text and reference books and schoolroom supplies cost \$1,669,450; stationery and printing for departmental use, \$186,221; printed forms, reports, and books for distribution, \$196,825. For groceries, meats, and miscellaneous provisions the sum of \$1,645,065 was spent by the State.

Cost of highway construction was \$35,264,967, and \$9,049,920 more was spent for maintenance, with other construction and maintenance costs requiring an additional \$515,315. As the table above shows, road bond retirements, principal and interest, cost \$9,481,571.

Important to the People

This report of the State Comptroller, breaking down as it does expenditures as to purposes, is a valuable document. The information contained in it should be studied by the people of Texas. The report gives the facts about State spending, and serious consideration of those facts will enable the people to decide whether the Government is spending too much money and where savings might be effected.

Report of Comptroller, State of Texas, 1939

COMPARATIVE STATEMENT OF THE STATE'S REVENUE RECEIPTS

For the Fiscal Years Ending August 31, 1935-1939, Inclusive

SOURCE	1935	1936	1937	1938	1939
Ad Valorem Tax.....	\$ 21,528,475.09	\$ 16,126,948.68	\$ 18,000,243.60	\$ 15,503,567.86	\$ 14,963,516.82
Inheritance Tax	683,960.25	1,143,711.54	724,143.65	1,109,332.45	604,401.61
Poll Tax	1,116,967.50	1,685,244.80	1,085,479.29	1,554,874.57	1,206,509.99
Store Tax				1,992,890.43	785,417.89
Gross Receipts Taxes	11,136,164.21	12,255,844.91	19,588,506.57	22,649,735.12	19,876,148.32
Insurance Companies—Occupation Tax.....	2,112,573.89	2,270,492.15	3,345,527.44	3,422,919.62	3,255,162.01
Occupation Taxes—Other	128,114.56	191,101.79	639,308.19	427,605.73	302,930.19
Cigarette Stamp Tax	4,289,978.31	5,459,386.39	6,440,614.55	6,803,401.30	6,890,109.37
Liquor Stamp Tax (Net).....		1,731,047.55	3,763,458.27	3,693,792.39	3,544,837.22
Wine Stamp Tax (Net).....		51,496.07	281,123.67	236,996.66	269,589.66
Beer Stamp Tax (Net).....	1,092,249.36	1,361,639.26	1,750,932.66	1,914,764.81	1,868,040.53
Note Stamp Tax			365,501.34	395,512.15	429,345.72
Highway Motor Fuel Tax (Net).....	33,550,273.84	36,242,686.72	40,551,796.79	42,228,405.22	44,216,908.15
Franchise Taxes	1,505,493.67	1,587,367.41	1,477,372.92	1,521,964.15	1,637,968.52
Insurance Commission Maintenance Taxes	247,881.46	218,224.15	235,740.44	299,489.53	247,418.08
Automobile Licenses	5,120,849.38	5,828,732.31	6,735,701.05	7,153,227.47	7,874,902.46
Other Miscellaneous Taxes and Licenses	82,247.07	920,842.68	1,063,368.48	742,048.52	677,359.82
Total Taxes and Licenses	\$ 82,604,228.59	\$ 87,074,766.41	\$ 106,048,818.91	\$ 111,650,527.98	\$ 108,650,566.36
Fees and Permits	\$ 2,323,566.21	\$ 3,570,563.53	\$ 2,958,257.56	\$ 3,186,457.23	\$ 3,128,704.33
Land Sales, Rentals and Royalties	4,277,778.52	5,210,049.71	7,335,750.54	6,329,318.71	4,538,816.80
Sale of Commodities and Property	127,326.16	193,813.73	148,153.16	416,793.95	486,330.31
Court Costs, Fines and Suit Settlements	532,043.91	829,865.24	263,088.39	176,367.04	1,105,973.23
Interest and Penalties	4,439,688.31	3,995,059.20	4,373,807.80	5,172,295.79	5,301,055.28
Miscellaneous Revenues	939,035.97	684,130.97	1,215,011.93	486,523.47	598,254.51
County, Federal and Other Aid	18,095,933.58	25,533,986.40	31,777,143.61	25,586,064.82	26,218,285.73
Teachers' Retirement Contributions				2,235,515.60	2,448,388.00
Employers' Contributions (Unemployment Comp.)				19,771,203.94	22,739,864.44
TOTAL REVENUE RECEIPTS	\$ 113,339,601.25	\$ 127,092,235.19	\$ 154,120,031.90	\$ 175,311,068.53	\$ 175,216,238.99

REPORT OF COMPTROLLER, STATE OF TEXAS, 1939
COMPARATIVE STATEMENT OF THE STATE'S GOVERNMENTAL COST EXPENDITURES
For the Fiscal Years Ending August 31, 1935-1939, Inclusive.

PURPOSE	1935	1936	1937	1938	1939
Legislative	\$ 806,423.34	\$ 825,146.56	\$ 958,109.03	\$ 172,023.59	\$ 818,387.80
Judicial	2,086,702.49	2,156,849.61	2,047,378.95	2,441,722.60	2,354,460.57
Executive and Administrative	1,546,916.69	1,889,276.57	2,016,320.26	2,239,220.91	2,349,807.47
Military and Law Enforcement	578,683.86	934,704.23	1,053,154.53	1,862,311.85	1,927,268.24
Regulation of Business and Industry	1,207,692.66	1,932,069.43	2,523,075.09	2,991,355.65	2,754,887.38
Conservation of Health and Sanitation	272,114.37	521,965.98	964,465.57	1,187,899.60	1,115,688.13
Development and Conservation of Natural Resources	1,713,744.31	2,211,652.91	2,484,696.21	2,489,765.95	2,193,140.41
Highways	46,107,342.52	52,919,007.63	53,157,669.74	48,014,442.88	55,934,368.56
Eleemosynary and Correctional	5,818,271.14	6,258,289.47	7,703,596.72	9,393,572.09	9,257,302.06
Public Welfare (Pensions and Benefits)	9,051,723.04	7,634,339.52	22,042,529.65	29,352,922.43	35,515,550.72
Educational	40,571,543.11	43,272,781.92	44,135,354.02	52,739,033.46	45,640,984.64
Parks and Monuments	86,581.40	1,718,018.30	2,103,830.87	759,761.73	364,384.90
Payment of Public Debt	555,132.25	2,941,255.24	3,273,796.45	3,629,606.82	4,047,253.84
Miscellaneous Governmental Cost	772,638.07	226,371.76	306,297.14	474,238.01	50,015.09
TOTAL GOVERNMENTAL COST EXPENDITURES	\$ 111,175,509.25	\$ 124,941,729.13	\$ 144,770,274.23	\$ 157,747,877.57	\$ 164,323,499.81

TABLE NO. 5

Analysis of Gross Receipts Tax Item Listed in Receipts Schedule,
Showing the Amount Collected from Each Kind of Business
and the Amount Credited to Each Fund. Fiscal
Year Ended August 31, 1939

Sec.	Kind	Total
COLLECTED BY COMPTROLLER:		
A	Express Companies	\$ 48,884.60
B	Telegraph Companies	55,396.49
C	Gas, Water, Power and Light Companies.....	894,424.23
D	Collection Agencies	3,020.62
E	Car Line Companies.....	3,159.51
F	Cement Companies	252,922.34
G	Natural and Casinghead Gas Companies.....	653,519.13
L	Textbook Publishers	18,743.65
M	Telephone Companies	704,260.23
N	Crude Oil Producers	
	{ Crude Oil Producers $\frac{1}{2}\%$ Appr.....	14,105,242.80
K	Crude Oil Producers 3/16c per bbl.....	883,138.36
O	Sulphur Producers	1,766,288.04
P	Beginners Tax	155.00
Q	Pullman Companies	33,402.17
R	Carbon Black Companies.....	353,751.53
S	Ore Producers	6,875.18
T	Cinnabar Producers	558.07

Total Collected by Comptroller.....\$19,783,741.95

COLLECTED BY ATTORNEY GENERAL:

Gas, Water, Light and Power Companies.....	\$ 4,836.72
Totals	\$19,788,578.67

TO OTHER FUNDS:

Gas Utilities Fund (R. R. Comm.).....	\$ 72,804.67
Special Game Fund (Game Dept.).....	3,339.19
Boxing and Wrestling Enforcement Fund (Labor Dept.)	11,425.79

Total (Table No. 3).....\$19,876,148.32

News Report

NEW TAX BILL SIGNED; PUTS LOAD ON ALL

2,200,000 Additional Americans Must Pay Income Levies; Cost of Gas, Cigarettes Up

(The Dallas Morning News, June 26, 1940)

Washington, June 25 (AP.)—The nation Tuesday shouldered its heaviest federal tax load since the World War.

President Roosevelt's signature made law of a bill estimated to raise \$4,692,500,000 (billions) in the next five years by adding 2,200,000 citizens to the list of income taxpayers and by raising the rates on income, profits, excise, gift and inheritance taxes. The money will be used to help finance the defense program authorized by Congress.

The Treasury calculated the law would increase anticipated federal revenue in the 1941 fiscal year, which begins Monday, from \$5,652,300,000 (billions) (not counting social security funds, which are now outside the budget) to \$6,367,600,000 (billions). An extra \$994,300,000 is expected to be raised in each of the following four years.

Next year's revenue, if realized, will be the largest since 1920, when peak collections were made on World War taxes, and the 1942 fiscal year may set a new income record of seven billion dollars.

2,200,000 More to Pay

Officials estimated 2,200,000 person would pay federal income taxes for the first time because of reduction of personal exemptions for heads of families from \$2,500 to \$2,000 and for single persons from \$1,000 to \$800. This lowering of exemptions also will result in increasing the payments of those now taxed.

To facilitate the defense program, the act authorized the Treasury to borrow immediately against the five-year proceeds of the measure. Sale of four billion dollars of national defense notes was authorized and the national debt limit was increased from forty-five billion dollars to forty-nine billion dollars. While the federal debt now is \$42,918,209,181 (billions), regular federal expenditures had been expected to exhaust the old debt limit within the next year, without provision for the extraordinary defense expenditures.

Effective dates of the tax increases vary. The income tax provisions apply to income earned during the 1940 calendar year, and will be payable March 15, 1941.

An extra 10 per cent added to the estate and gift taxes became effective at 10:45 A.M. (Dallas time) Tuesday, the time the President signed the bill.

Increased excise taxes, such as those on liquor and cigarettes, will become effective at 12:01 A.M., Monday, July 1.

Surtax Rates Up

The heaviest of the new tax bills will fall on income taxpayers. They are expected to pay \$319,000,000 in the next fiscal year and \$580,000,000 in the following four years in addition to their payments under former income tax rates.

The new law required a return—a report on income—from everyone earning more than \$2,000, whether subject to the tax or not.

Another series of changes boosts the surtax rates on persons having net income of between \$6,000 and \$100,000. Under this provision, the surtax (which is in addition to the 4 per cent normal income tax) was increased from 5 to 6 per cent on net incomes of between \$6,000 and \$8,000. These increases range upward to a boost of from 55 to 56 per cent on net incomes between \$90,000 and \$100,000.

The tax on amusements will apply henceforth to admission of 20 cents and more, instead of 40 cents as at present, but the rate of 1 cent for every 10 cents or fraction is unchanged.

An extra 1 per cent was added to each bracket of the corporation tax raising the rate for concerns with income of more than \$25,000 from 18 per cent to 19 per cent.

Then on top of all old and new income tax provisions, a 10 per cent supertax was added. Thus, if a citizen's income tax bill comes to \$100, the supertax increases it to \$110.

TEXAS MUST HAVE A STREAMLINED SPENDING SYSTEM

By George C. Hester, Professor of Government at Southwestern University

(From *Texas Industry*, July, 1940)

What Security?

What the perpetual tax-boosters cannot see and apparently are unable to understand is that, when taxation goes beyond a certain limit it not only impoverishes the thrifty masses, but business enterprise, property holding, and even savings tend to lose their incentives when it is known that major fruits of all efforts and endeavor are to be taken by the government. As it is, the average life of independent business today is only five and one-half years. By such blind and improvident policies we are driving directly toward fascism, regimentation, and government ownership—the very things we denounce in Europe.

What We Are Facing

Our State faces a crucial hour in its history. Enormous and destructive tax measures are being proposed, political opinion is being cultivated to accept the grim fatalism that such a course is both necessary and inevitable. I challenge such assumptions. Any contriver can think up new taxes, any blunderer can contrive new needs and panaceas and schemes whereby additional millions of hard-earned dollars can be poured into the complicated governmental spending machine—a thing that grows by what it feeds on can always use any amount and be ready to cry for more.

We hear much, for example, about the great deficit in the general fund. We have been hearing the same thing for ten years. State expenditures have been increased from 65 per cent since I was in the Legislature in 1933 and the State's general fiscal condition is actually better now than then.

What they forgot to tell us now, is that the State operates through more than 100 different funds, and whereas two or three funds have a deficit of \$23,000,000, the others have a surplus of over \$40,000,000.

Nebraska's Record

Most people believe that Texas levied no new taxes last year. As a matter of fact the actual taxes this biennium were increased nearly \$20,000,000, over those of the last. Nearly \$17,000,000 of this came as a result of the action of the Automatic Tax Board for school purposes.

It has been proven that states can manage their affairs without constantly resorting to new revenues. Last fall I spent several days in Nebraska making a detailed study of the tax record of that state. Here it is:

Nebraska has no income tax, no sales tax, no use or service taxes, no chain-store tax, and not even a cigarette tax. During the past ten years the property taxes, state and local, have been reduced from \$66,028,255, in 1927, to \$38,557,269, in 1938. During the same period all bonded indebtedness was reduced by one-third.

While Texas this biennium is increasing the expenditures by some \$20,000,000, Nebraska actually cut its appropriations by 8 per cent, and the appropriation budget there includes all expenditures. They don't try to spend from a hundred different and separate state pockets as we do in Texas. They actually know what they are doing with their state money.

If Texas had followed the Nebraska example and cut its expenditure budget 8 per cent, it would have saved some \$24,000,000, this biennium, instead of the actual increase of \$20,000,000. A difference of \$44,000,000, in two years, is quite an item.

Our State Needs a Business Manager System

The fact is, we have in Texas today, one of the most out-of-date, inefficient and wasteful systems for the administration and management of public affairs that can be found in the English-speaking world. Our taxing and spending system has become a modern eight-cylinder engine which we have placed upon a buckboard for its operation.

The most obvious, most fundamental and most pressing problem in Texas today is a sincere and efficient administration of the tax system we already have on the one hand, and a system of proper spending on the other. *It is a dual problem which is costing the State nearly \$10,000,000 annually*, in addition to giving rise to a train of evils and abuses growing worse each year. We need a coördination between such as they have in Nebraska.

Obsolete Administration

We must remember that the skeleton for our complicated and elaborate framework was designed for another day. The result, like Topsy, has just grown.

Our state governmental machine today is a veritable "hodge-podge" of over one hundred uncoördinate boards, bureaus, and commissions. It is a heterogeneous group of disjointed authorities, and agencies, with responsibility diffused and running in all directions, with endless overlappings, and with no means of working in unison. Its agencies, big and little, are lying around loose, spending all the money they can get, most of them never really audited, and are accountable to nobody. The whole procedure violates every principle of efficiency, economy, and sensible transaction of business. The system is so clearly obsolete and wasteful that twenty years from now we will look back upon it as an example of the dark ages in Texas politics.

What It Means

That such a ramshackle structure means a multiplicity of unnecessary agencies and the jobs is not in itself the worst feature. It is a system of wastes by dribbles throughout. The real defect, however, lies deeper. It is the lack of any clear-cut responsibility under which so much of the State's money is spent, and the lost motion and inefficiency in the creaking and obsolete system, with the resultant indirect wastes. The maze and obscurity behind which public affairs are conducted, which baffles the citizen, confuses the legislator, and in the end affords no reliable basis upon which fiscal policies can be predicted. And finally it means no coördination between income and expenditures which must be adopted before we can ever balance the

budget in this State with any kind of a tax measure, except as a temporary matter.

A Business Manager System for Budgetary Control Needed

The vital defect in the whole thing is the lack of adequate financial management, fiscal control and supervision. One of the basic requirements of good government is responsible financial management and fiscal supervision. This implies a system of fiscal control, which is clear-cut responsibility vested in a proper fiscal agency, for the *continuous* administration of the whole unified budget as a unit after such has been adopted in the appropriation acts. This would include purchasing, certifying of the pay rolls, requiring a merit system, examining and supervising accounts, receipts and expenditures, revising estimates and approving spending programs quarterly. This should be supplemented by a unified post-auditing system independent of all spending agencies.

This is what is meant by a business manager system—and by that I mean a budgetary system—thoroughgoing, far-reaching, all inclusive and continuous in its functions. In short, complete budgetary control. The State budget can never be balanced, except temporarily, by any other procedure.

The Pension Question

What are the facts about this controversial question? I think the problem can be appraised only by comparing Texas's Pension System with the general policy nationally so as to give us some conception of what would be a sensible and fair pension program.

Just now the average pension payments in Texas have been reduced to about \$9.60, due to the fact that the State is repaying a loan against the fund. By next September this loan will have been repaid and the normal pension payments, averaging about \$14.75, will be resumed. In other words, this is the pension situation as it will confront the next Legislature, which meets in January, 1941.

Texas

Number of pensioners on rolls, per 1,000 of those above 65..... 424

Other States

Number of pensioners on rolls, for each 1,000 of those above 65.... 236

Average Payments Per Pensioner

Texas (as of January, 1941).....	\$14.60
Other states	\$19.36

While the Texas payments are lower, the coverage is 1.8 times the national average. On the basis of both coverage and payments,

it should be noted, Texas will have an average pension system under revenues already provided.

It is evident from the above figures that a most liberal pension program for Texas would be to bring the average payments up to that of other states, which is \$19.36. Such a program would place Texas among the one-half dozen most liberal states in the Union, since it has on its rolls a larger number of pensioners than is the case for the other states. It would give Texas a pension program that would be nearly three times the average of all the other southern states.

With 121,000 pensioners on the rolls, this would require about \$360,000 each month for the State's share of approximately four and one-half million dollars annually in additional State funds, which when measured by a similar amount in federal funds, would give us one of the most liberal systems in the Union in terms of both coverage and average payments. This certainly doesn't sound like forty or fifty million dollars in new taxes.

By comparison, let us look at the other southern states where living conditions are similar to those in Texas. Here are their pension payments: Arkansas \$5.96, Alabama \$9.04, Georgia \$6.10, Mississippi \$7.43, South Carolina \$8.18, North Carolina \$9.90, Tennessee \$10.05, Oklahoma \$17.61, Louisiana \$10.65, New Mexico \$11.95, Kentucky \$8.57, Florida \$11.81, Virginia \$9.67. In every one of these states, except Oklahoma, it may be added the number of eligible pensioners per 1,000 of those above 65 is less than in Texas and frequently less than one-half.

Discriminating Against Other Destitute Families

While Oklahoma pays more to its pensioners, the state is the lowest in the Union in its allowance for general relief to other unemployed and destitute families, paying an average of only \$3.30 per month for families on relief. In Texas the allowance is only \$7.90 compared in payments ranging from \$25 to \$35 in the northern states.

I do not presume to say what sort of a pension program we should have. That is a matter of social policy and might be anything from nothing to outright Townsendism. I wish only to call attention to the fact that many other people; men, women and children, are suffering in Texas, and not more than one destitute family in ten actually receives any aid from any old-age pension system. Most of the real victims of cold, starvation and malnutrition in reality are children. An unbalanced and extravagant pension program in fact of such conditions is hardly in accordance with the democratic principles of "fair play," when multiplied thousands of other neglected families are destitute and suffering.

Teachers' Retirement

Another obligation of the State is that of the teacher retirement. The people ought to be given the truth about this problem. They are being constantly fed on the silly argument that the State must crack down a vast initial sum of \$10,000,000, to go immediately into a vast reserve fund, in order to meet its obligations. There is no such mandate for the Legislature to pursue such a method, and it would be perfectly foolish to follow such a method.

The State owes it as a moral obligation to pay its part of teacher retirement, and that it should do. The only sensible way for the State to fulfill this moral obligation is to start current matching of teacher payments which will require some \$2,500,000 annually. An additional \$500,000, or slightly more, annually would be needed temporarily to gradually catch up with the State's share of the prior service obligations. By this gradual method the State, within a few years, could meet its full obligation to the teachers.

The State's obligation to the dependent children and the dependent blind will aggregate approximately two and one-half million dollars annually and should be met.

Summary

1. Our State expenditure system has degenerated into what is little less than a grand scramble of log-rolling coalitions upon the public purse. The most pressing problem in state government is a modernized system of budgetary control and business-like management of all state funds, with a coordinated, continuous and responsible supervision of expenditures.

2. Our whole state government is reeking with the spoils system which should be substituted by a fair and adequate merit system for employing the regular personnel.

3. We have a court system in Texas that costs nearly three times that of the English system, which serves nearly 40,000,000 people.

4. The actual mandatory additional revenue needs of our State for teachers' retirement, aid to dependent children and the blind aggregate only five and one-half millions annually.

5. The Texas pensions under revenue already provided will equal the national average after next September. An additional four millions of state money, when matched by federal aid, would give us a pension system that would rank among the half-dozen most liberal systems in the Union, when measured by both coverage and payments.

6. Our state has due it over \$25,000,000, in delinquent taxes, one-half of which is solvent and is owed by willful evaders, and should be collected to meet the pressing eleemosynary and other accrued needs.

7. The trouble with a spending system that is based upon the grand scramble and grab-bag method is that those groups most politically powerful get the money irrespective of the relative value of either their needs or the services rendered. As a result the more just and even the more indispensable requirements are neglected. Our neglect of the insane and the dependent children are cases in point.

8. In short, if I were a legislator again, I would, as in 1933, refuse to vote for any material tax levies until we face the situation as a whole fairly and squarely, reorganize the whole dilapidated system, adopt sound and responsible budgetary methods, and clean up the whole mess generally.

The old creaking, disjointed system, irresponsible, confusing and full of leaks and dribbles, will not do. We can't afford it any longer. For a generation now we have done nothing but scramble for new revenues, until the taxing power is rapidly approaching its limit, and the point of plunder. It is time now to think a while on the other side of the question, and that side is sensible spending. We must face it now or later.

George C. Hester Says

George C. Hester says:

I do not pretend to know what is ahead of us in these uncertain and chaotic times. It is possible that we are facing one of the most cruel and crucial dilemmas in the history of this republic. The issue of peace or war constitute only one phase of that problem. What is to happen to our economy and business systems of free enterprise is still another. The outline of the picture, stripped of the political soft-soaping, is not encouraging. The loss of foreign markets for agriculture, together with the trade-squeezes for business on the one hand, intensified by the ever-mounting and stifling tax burdens on the other, are going to test all of us.

There never was a greater need for a calm and dispassionate approach to public affairs than today. This particularly applies to our own situation in Texas. It is a different world we are facing. With a world economy cracking-up about us, our political melee in Texas seems to have boiled down primarily into one single, sordid question—the issue in which seems to be about this! *Who is going to raid the public treasury and how much!* Nothing else seems to concern us very much in Texas politics.

If I were a member of the next Legislature, I would again, as I did in 1933 when our country faced another crisis of a different nature, consider it my supreme duty as a loyal American to refuse to vote further destructive taxes upon our harassed business men or struggling families in this tragic hour.

We all know what we are facing in public finance. Why deceive ourselves? Texas' share, for example, of the new national defense tax measure will not be less than \$40,000,000 annually. Yet we know that the billion dollar measure is only a beginner. The main defense taxes are yet to come. With our people already facing such enormous burdens, and with business enterprise already weighted down and apprehensive about the outlook, this is certainly no time for any further material increases in state expenditures. To follow such a course would only make it more difficult for business and our consumers to carry the national load and thus further jeopardize our future.

The supreme patriotism today calls for sacrifice, not self-seeking raids upon the public treasury; for facing realities—not political mouthings and epithets; for devotion to principles of public honor—not perverted ideals and spineless politics.

In the light of the circumstances we are facing, I consider it the duty of all groups to coöperate in avoiding new and additional expenditures of state and local governments, except what are absolutely necessary. And this is no time to quibble about technical deficits in certain funds while ignoring counter-balancing surpluses in others, in the state's duplicated and "hundred pocket" spending system and cockeyed accounting methods.

The time has come to face the realities of public finance in Texas, and put our state on a sensible business basis of coördinated expenditure control.

This can never be done by constantly harping about new and enormous tax measures on the one hand with promises for increased handouts and expenditures on the other. Those who indulge in such fallacies are simply blowing "hot and cold" in the same breath and are merely fooling themselves and deceiving the people.

Excerpts from

ENERGY RESOURCES AND NATIONAL POLICY

Part One—Section II

National Resources Committee, January, 1939

United States Government Printing Office

. . . The American petroleum industry was initiated with the drilling of the Drake well in Pennsylvania in 1859. Production of crude petroleum in the following year is estimated at 500,000 barrels. Since that time production of crude oil has grown with a high degree of regularity until, in 1929, it amounted to one billion barrels. Production then fell to approximately three-quarter billion barrels in 1932 and recovered to an all-time peak of slightly more than

one and one-quarter billion barrels in 1937. Up to the beginning of 1900 the total output of the industry approximated one billion barrels. During the following twenty-two years production amounted to approximately five billion barrels. The activity of the industry as further speeded up during the 1920's and 1930's, so that in the sixteen years ended January 1, 1938, production approximated fourteen billion barrels. Of the total output cumulated to the beginning of 1938 of twenty billion barrels, 70 per cent was produced during the years 1922-37. The petroleum industry is one of the largest American industries. Judged by gross annual income, it exceeds any other branch of industry with the exception of agriculture. On the basis of capital investment or net income, it ranks somewhat lower.

In every year since 1920 at least one estimate has been made of the petroleum reserves. Although these estimations have been made by a number of individuals and organizations, sometimes simply by computing back to prior years, they are, on the whole, consistent with each other. They serve to indicate that the rise in the known reserves of oil is greater than the rise in production. On January 1, 1938, cumulated oil production in the United States amounted to about twenty billion barrels, and the estimate of the American Petroleum Institute indicated that ultimate recovery would approximate thirty-six billion barrels. Variations among authorities as to the size of the reserves are still considerable. It may be noted in Table 1 that for January 1, 1938, these estimations vary from about thirteen billion to about nineteen billion barrels. The figure for January, 1939, of seventeen and three-tenths billion barrels by a committee of the American Petroleum Institute is most often used by members of the industry; the Institute's annual estimates are built up from district estimates in which local geologists and engineers participate. During 1938 proven reserves, according to one estimate, increased by nearly one billion barrels after allowance for estimate production of one and two-tenths billion barrels. The reserve estimate of the *Oil and Gas Journal* for January, 1939, was fourteen and four-tenths billions, or nine-tenths billions above the original estimate of January, 1938. During the year reserve revisions and extensions amounted to one and twelve-tenths billions and new discoveries to ninety-five hundredths billions according to the *Oil and Gas Journal* and to two and twenty-four-hundredths billions and eighty-one-hundredths billions, respectively, according to the American Petroleum Institute Committee.

Practically all the acreage in proven areas has been leased, and most of it is controlled either directly or indirectly by major oil-producing companies.

At the end of 1925 the successor companies of the old Standard Oil Company of New Jersey controlled 47.4 per cent of the acreage in proven oil-producing territory. Although all these holdings were

not in rich producing areas, consolidation since 1925 and the acquisition of further reserves by the Standard Oil groups have substantially raised this percentage and raised the average quality of the holdings. Recent detailed data indicate that a large percentage of reserves is now controlled by the following companies: Standard Oil Co. (New Jersey) and its subsidiaries, the Humble Oil and Refining Co. and the Creole Petroleum Corporation; Gulf Oil Corporation; Standard Oil of California; Texas Corporation; and Socony-Vacuum Oil Co.

"In 1900 considerably more than half of the national requirements of crude petroleum came from the Appalachian fields, slightly more than a third from the Lima-northeastern Indiana-Michigan field, and the small remainder from California and the Gulf coast fields. . . . The Appalachian field's share of the total in 1935 was 3.2 per cent, and only 2.2 per cent was furnished by the Lima-northeastern Indiana-Michigan fields." Today, Texas is far in the lead, having produced 40 per cent of the United States total in 1937 (Table 10). California and Oklahoma almost tied for second place, with 18.7 per cent of the United States total produced by the former and 17.9 per cent by the latter. The three states produced an aggregate of 76.6 per cent of the United States production. Louisiana stepped up production and is now contributing a greater percentage than Kansas.

A preliminary estimate of 1938 production indicates a somewhat different picture. Although Texas and Kansas contributed slightly less to the nation's total for 1938 and California and Louisiana slightly more, the significant changes were the rapid increase in Illinois and the marked decline in Oklahoma. While proration may account for some of the drop in Oklahoma, the main reason probably was lack of new development. The outlook for the future indicates further shifts in production. Texas probably will have to shoulder much of the deficiency in Oklahoma production, a material drop in which now seems imminent. Because of deeper drilling, we may obtain increased production from Louisiana, Illinois, Michigan, Kansas, and Wyoming.

The natural gas reserves of the United States have been estimated, as of the first part of 1938, at 62 trillion cubic feet by N. G. McGowen, president of the Natural Gas Association, and at 66 trillion cubic feet by Ralph E. Davis, natural gas engineer (Table 2). In a later section of this report, Ralph W. Richards, of the United States Geological Survey, points out that recent discoveries in California raise the total to the order of magnitude of 100 trillion cubic feet. On the whole, these estimates indicate that natural gas, as well as crude oil, is being discovered more rapidly than it is being consumed. . . .

Cost of Production of Crude Oil. From *Report on the Cost of Producing Crude Petroleum*. United States Department of Interior, 1936

Texas

	Net Cost, including interest
1927-30 _____	.93 per barrel
1931-34 _____	.67 per barrel
Av. 1927-34 _____	.79 per barrel

Oklahoma

1927-30 _____	1.18 per barrel
1931-34 _____	.97 per barrel
Av. 1927-34 _____	1.10 per barrel

Louisiana

1927-30 _____	1.43 per barrel
1931-34 _____	.86 per barrel
Av. 1927-34 _____	1.13 per barrel

Average for Mid-Continent Gulf Area

	Net Cost, including interest
1927-30 _____	1.09 per barrel
1931-34 _____	.79 per barrel
Av. 1927-34 _____	.94 per barrel

Average All States

1927-30 _____	1.05 per barrel
1931-34 _____	.80 per barrel
Av. 1927-34 _____	.92 per barrel

COSTS PER BARREL OF TEXAS OIL

	Cents per barrel	Percentage of Cost
Wages and salaries represent _____	40.82	51.03
Supplies represent _____	22.37	27.96
Taxes represent _____	9.23	11.54
Depreciation, depletion and overhead represent _____	7.58	9.47
Total _____	80 cents	100%

Source*—Figures obtained from Texas oil operators.

Reported by Texas Mid-Continent Oil and Gas Association.

MINERAL PRODUCTION IN TEXAS FOR 1938 BASED ON QUANTITY SOLD

Statistics collected by U.S. Bureau of Mines in coöperation with Bureau of Economic Geology, The University of Texas

	Quantity	Value
Asphaltic limestone, tons* _____	132,382	\$ 366,030
Barite, tons _____	450	1,148
Basalt, tons _____		†

*Tons as used in this list = 2,000 pounds; long tons = 2,240 pounds.

†Value included in "Miscellaneous."

	Quantity	Value
Bentonite, tons	21,744	207,084
Cement, barrels	7,116,546	11,885,494
Clay:		
Products (other than pottery and refractories)		2,549,979‡
Raw, tons (other than bentonite)	22,113	203,414
Coal, tons	26,000	70,000§
Copper, pounds	32,000	3,136
Fuller's earth, tons	37,998	358,980
Gold, fine ounces	439	15,365
Granite, tons	4,560	44,557
Gypsum, crude, tons	246,990	260,094
Helium, cubic feet	6,099,060	†
Lead, pounds	684,000	31,464
Lignite, tons	846,219	679,000
Lime, tons	49,352	429,664
Limestone, tons	2,100,160	1,739,531
Mercury, flasks (76 pounds)		†
Miscellaneous stone, tons	1,016,470	741,189
Miscellaneous¶		22,543,782
Natural gas, M cubic feet	882,473,000	133,486,000**
Natural gas-gasoline, gallons	685,920,000	19,781,000
Natural sodium compounds, tons		†
Oil, barrels	475,850,000	539,150,000
Salt, tons	324,449	624,096
Sand and gravel, tons	7,647,981	3,966,148
Sand-lime brick, thousands		†
Sandstone, tons	114,360	77,456
Silver, fine ounces	1,433,008	926,389
Sulphur, long tons*	1,331,014	
Total value, eliminating duplication		\$740,141,000

Carbon black produced to the amount of 417,104,000 pounds, valued at \$9,590,000, not included in total for State.

Production reported by the producing companies to the State Comptroller for the calendar year 1938: Oil, 469,483,955 barrels; sulphur, 2,058,939 tons; carbon black, 403,854,926 pounds.

*Tons as used in this list = 2,000 pounds; long tons = 2,240 pounds.

†Value included in "Miscellaneous."

‡According to Bureau of Census.

§Production as reported by Bituminous Coal Division. Value is estimated from various sources and includes selling expenses.

||Production is for fiscal year July, 1937, to June, 1938.

¶Includes basalt, helium, mercury, natural sodium compounds, sand-lime brick, and sulphur.

**Value at points of consumption. Estimated value at the wells, \$19,767,000.

THE GROSS PRODUCTION TAX AND OTHER STATE TAXES
PAID BY THE TEXAS OIL INDUSTRY

By George H. Sheppard

Comptroller of Public Accounts, State of Texas

(Delivered at the Nineteenth Annual Convention of the Texas Mid-Continent Oil and Gas Association. San Antonio, Texas. October, 1938)

Mr. Chairman and Members of the Association: I hardly think it is necessary for another speech to be made regarding the petroleum industry of Texas. I hardly know what to say after hearing the President's address. I think it was the greatest speech I have ever listened to along that line. I thought I knew a little something about oil and the oil industry but I find I had overlooked so many things. It is so great, we cannot conceive of its present set-up and its potential possibilities.

I was asked to give a brief history of the gross production tax, but I have not prepared anything on all taxes paid by the oil industry; it is a long and arduous task for me to get it. But you got practically that in your President's address and your Association has worked on that and has the statistics which are very interesting. And I notice on the program there is to be a special talk on that subject.

I am going to be very brief and take only a few minutes of your time to give you a little history of the gross production tax, which I was assigned, up to the present time. The crude oil production tax law was first enacted in April, 1905. At that time and until August 16, 1907, the tax rate was 1 per cent of the value; from August, 1907, to March, 1919, the tax was $\frac{1}{2}$ of 1 per cent of the value; from March, 1919, to July, 1923, the tax was raised to $1\frac{1}{2}$ per cent; and from July, 1923, to September, 1933, the tax was again raised to 2 per cent of value. Up to this time the operator was charged with the reporting of his production and paying the tax.

The law was changed on September 1, 1933, by placing the burden of collecting and remitting the tax on the purchaser. This change proved to be very successful and a decided increase in the collection of the tax was noted. The rate of tax was also changed at that time to 2 cents per barrel when the price of the oil was under \$1.00 per barrel and 2 per cent of the value when over \$1.00 a barrel.

From November 1, 1936, to date the rate of tax has been $2\frac{3}{4}$ cents a barrel on oil \$1.00 and under and $2\frac{3}{4}$ per cent of the value when over \$1.00 a barrel.

Since 1905 down to and including the fiscal year, 1938, the oil industry paid \$116,431,706 production tax, and \$5,552,948 regulating pipe line tax. The regulating pipe line tax is misnamed. It is also a production tax applying to all oil produced and goes to the Oil and Gas Division of the Railroad Commission for conservation enforcement. During the last two fiscal years \$1,800,000 was collected on regulating pipe line tax and \$30,000,000 on production tax. The regulating pipe line tax did not go into effect until 1917.

The recent decline in crude might also show a decline in the production tax, depending, of course, on the allowable. Taking the August allowable of approximately 44,750,000 barrels, every 10-cent cut would mean a loss of about \$450,000 to the operators and about \$14,000 in production tax; however, after the oil reached \$1.00 per barrel the production tax would remain the same.

There are approximately 4,500 operators reporting to my office and reporting production on about 16,000 leases. It might be interesting to you to know that I have a ledger sheet on every lease and post the production as reported to each lease.

A motor fuel tax of \$49,281,235 was collected during the last fiscal year ending August 31, 1938, an increase over 1937 of \$2,795,651.

It would be almost impossible for me to give you the amount of ad valorem tax paid by the oil industry as you have property in every county and especially in the oil-producing counties.

Not only in the county do you pay taxes but you pay in various subdivisions—the drainage districts, the school district, what not. The way the tax roll is set up it is impossible for us to analyze it in the office and get all that information without added forces for that purpose. I do want to thank you people for your coöperation in handling the gross production and other taxes paid through your operators.

I have had but little trouble in the collection of the production tax, and I appreciate the coöperation that you men have given me.

The original natural and casinghead gas law became effective August 22, 1931. From that time until August 31, 1938, the State has collected \$2,377,792.83 in gross receipts taxes. The tax rate was 2 per cent of value until November 1, 1936, and the tax was payable direct by the producer. Since November 1, 1936, the tax rate has been 3 per cent of value and the tax is collected and paid by the purchaser. For the past year and ten months the tax has amounted to practically the same as the total for the five years and two months.

Collection on gas as follows:

Now, folks, there is another thing that the oil industry has done for the people. The State tax rate has been around 77 cents for

years until we began to get some money from the oil industry, when we reduced the ad valorem tax of the State down to 49 cents. Don't forget that, because that is the only thing I have known since I have been connected with the State where we got any reduction, believe it or not!

I could give you the collections for various years, but I do not think you would be interested in them because those figures are a matter of record. But I want to call your attention to and emphasize the statement made by your President in regard to the benefit you have been to our schools, especially.

During the last five years, considering gross production tax only, you have paid \$27,100,982.19 for the support of the public schools in Texas. Where would we have been during these years had it not been for this industry? Where would our schools have been? And there has been an increase of \$13,550,491.09 during the five years to the schools.

I shall not take any more of your time in showing analyses. I feel sure that when I was assigned to give a brief history of the oil industry, you did not know your President would present the figures he did. Now I'm sure you would be glad to have someone tell you what is going to happen in the same length of time in the future. I wish we had someone who could tell us that.

Folks, I want to call your attention to one thing that I think we all, as taxpayers, are overlooking. I believe in the enforcement of all laws, and you do, too; and in complying with them. Our ad valorem tax system is getting in a bad condition. I hate to make this remark but I believe it. I think one of the greatest mistakes that was ever made was made when we abolished the fee system. Since the Legislature remitted all back taxes up to 1919, we have due the State now, on real property alone, sixteen million dollars, not including the insolvents and poll taxes that haven't been paid. That is due the State of Texas today. Most of it should be collectible—but listen:

There is the high ad valorem tax everybody is paying in the local communities—you have the independent school district, you have the city taxes, etc., and everyone gets it where he is located. It would be astonishing to find out just the amount of the delinquent taxes; the amount would be almost enough to take care of the local set-up for a year or two if they were all collected. . . .

STATISTICS ON TEXAS OIL AND GAS PRODUCTION

(Published in *Important Facts about Texas Oil*; Sources Indicated)

Texas Oil Wells—Year 1938

District	Producing Jan. 1	Oil Wells Completed	Producing Dec. 31	Wells Abandoned	Dry Holes Drilled*	No. Pumping Wells	% on Pump
North Texas	16,031	1,397	17,225	203	746	16,364	95
Panhandle	3,631	398	3,980	49	28	3,860	97
West Central Texas.....	8,239	653	8,633	259	200	8,288	96
East Texas Field.....	24,094	1,699	25,765	28	41	5,926	23
Balance East Texas.....	3,129	301	3,391	39	151	2,272	67
West Texas	6,543	1,638	8,018	163	353	3,978	49
Southwest Texas	10,516	1,730	11,738	508	865	8,217	70
Gulf Coast	5,643	1,076	6,637	82	292	2,456	37
Total	77,826	8,892	85,387	1,331	2,676	50,378	59
Total Outside of E. Texas Field....	53,732	7,193	59,622	1,303	2,635	44,452	75

Source—Texas Railroad Commission.

*From The Oil Weekly.

Crude Oil Production

Year	Texas (Bbls.)	U.S. (Bbls.)	% Texas
1859-1888*	-----	35,119,000	.0
1889-1900*	176,500	63,395,500	00.3
1901-1910*	14,534,200	137,425,900	10.6
1911-1920*	35,632,400	305,200,400	11.7
1921-1930*	186,400,100	771,861,500	24.1
1931	332,437,000	851,081,000	39.1
1932	312,478,000	785,159,000	39.8
1933	402,609,000	905,656,000	44.5
1934	381,516,000	908,065,000	42.0
1935	392,666,000	996,596,000	39.4
1936	427,411,000	1,099,687,000	38.9
1937	510,732,000	1,277,653,000	40.0
1938 (a)	475,000,000	1,210,000,000	39.3
Total to Date	5,602,634,000	21,182,380,000	26.4

Source—U.S. Bureau of Mines.

*Annual average.

(a) Month of December, estimated.

Natural Gas Production

Year	TEXAS (Thousand cubic feet)	U. S. (Thousand cubic feet)	% Texas
1927	254,063,000	1,445,428,000	17.6
1928	301,990,000	1,568,139,000	19.2
1929	464,928,000	1,917,693,000	24.2
1930	517,880,000	1,943,421,000	26.6
1931	464,580,000	1,686,436,000	27.5
1932	456,832,000	1,555,990,000	29.3
1933	475,691,000	1,555,474,000	30.6
1934	602,976,000	1,770,721,000	34.1
1935	642,366,000	1,916,595,000	33.5
1936	734,561,000	2,167,802,000	33.9
1937	891,750,000	2,447,620,000	36.4
1938*	915,000,000	2,254,700,000	36.2

Source—U. S. Bureau of Mines.

*Preliminary Estimate by The Oil Weekly.

Proven Oil Reserves in United States

As of January 1, 1939

State	Total Reserves Barrels	Per Cent of U.S.
Texas	8,471,600,000	53.4
California	2,945,715,000	18.5
Oklahoma	1,093,650,000	6.9
Louisiana	747,980,000	4.7
Kansas	690,965,000	4.4
New Mexico	576,620,000	3.6
Pennsylvania	272,500,000	1.8
All Other States	1,091,810,000	6.7
Total U.S.	15,890,840,000	100.0

Source—The Oil Weekly, January 30, 1939.

Texas Drilling Costs

	Wells	Cost Per Well	Total Cost
1922	4,428	\$15,000	\$ 66,420,000
1927	6,500	17,777	115,548,400
1936	12,527	25,000	313,175,000
1937	14,275	25,000	356,875,000
1938*	12,184	26,000	316,800,000

*Preliminary estimate.

RATES ON TEXAS GASOLINE

(From Texas & Pacific Railway, Traffic Dept.)

Per hundredweight

Wichita Falls to Chicago	42½	cents per cwt.
Longview to Chicago	42½	cents per cwt.
Shreveport, La., to Chicago	40	cents per cwt.
Tulsa, Okla., to Chicago	40	cents per cwt.
Wichita, Kans., to Chicago	40	cents per cwt.
Houston to Chicago	43	cents per cwt.

One gallon gasoline weighs 6.6 pounds.

15.15 gallons in 1 cwt.

8,000 gallons average tank car.

160 barrels gasoline average tank car.

52,800 pounds of gasoline or 528 cwt. per carload.

Cost of shipping 528 cwt. from Wichita Falls to Chicago is 528 times 42.5 cents, or \$224.40.

Cost of shipping 528 cwt. from Shreveport, Tulsa, or Wichita, Kansas, to Chicago, is 528 times 40 cents, or \$211.20.

Difference is \$13.20 per average tank car against the Texas oil industry.

TOTAL IMPORTS OF PETROLEUM AND ITS PRODUCTS
INTO THE UNITED STATES

		Imports—All Oils (1,000 bbls.)
1939	January	3,742
	February	3,899
	March	3,867
	April	5,054
	May	6,321
	June	6,533
	July	5,696
	August	6,224
	September	5,371
	October	5,034
	November	4,479
	December	5,106
	Year	61,612
1940	January	4,633
	February	6,272
	March	7,732
	April	6,801
	May	7,075 (Est.)
		5 Mo's 32,513,000 bbls.

Figures for May 1940 from American Petroleum Institute.
Prepared by the Independent Petroleum Association of America from data from
U.S. Tariff Commission.

AVERAGE MONTHLY TANKER RATES FROM GULF COAST
TO ATLANTIC COAST (NOT EAST OF NEW YORK)

(All figures in cents per barrel)

		Average Paid Tanker Rates			
		Heavy Crude and fuel	Light Crude	Gasoline	Light Fuel
1939	January	22.50	20.50	23.75	25.75
	February	17.63	15.75	16.63	18.63
	March	16.60	14.60	15.00	17.00
	April	19.50	18.13	18.75	20.75
	May	24.00	24.40	23.90	26.30
	June	20.00	18.63	16.50	18.50
	July	17.75	16.13	14.75	16.75
	August	17.00	15.40	14.90	16.00
	September	25.00	22.75	23.50	26.50
	October	35.00	31.00	30.75	35.50
	November	36.60	33.40	36.20	39.40
	December	49.75	45.25	55.25	60.25
	Year	25.11	23.00	24.16	26.78
1940	January	58.25	51.50	65.50	71.50
	February	60.00	53.00	66.00	72.00
	March	63.75	57.75	64.00	70.00
	April	60.25	53.50	57.25	63.75
	May	69.50	61.00	54.50	60.50
	June 10th	57.00	50.00	54.00	60.00

NOTE: Venezuela to Atlantic Coast same rates as above. Mexico to Atlantic ports 2 to 3 cents per barrel additional.

Prepared by the Independent Petroleum Association of America from data from *National Petroleum News*.

THOMPSON HITS TANKER RATES

Austin, May 16 (AP).—Fluctuation in coastwise tanker shipping rates may be a contributing factor to the present unrest in the oil industry, Ernest O. Thompson, member of the Texas Railroad Commission, said Thursday.

Thompson, former chairman of the Interstate Oil Compact Commission and member of the state agency which regulates production in Texas, asserted tanker rates last Summer were as low as 14½ cents per barrel of oil and in February had risen to 73 cents a barrel. A month ago, he said, they were 53 cents.

"During that period," he continued, "Illinois oil was replacing Texas oil and if companies which owned tankers wanted to equalize the price they could raise tanker rates. The cost of transportation is a vital part of oil prices."

The commission pointed out coastwise shipping was not regulated by governmental agency and called attention to an investigation of tanker rates being conducted by a congressional sub-committee.

He declared it was his understanding operating costs of tankers were between 20 and 21 cents per barrel of oil.

Conclusions from

"A COMPARATIVE STUDY OF THE NATURAL RESOURCE TAXES IN TEXAS, OKLAHOMA, AND LOUISIANA"

By

C. M. McFARLAND

Rep. Dist. No. 111, Place 1, Wichita Falls, Texas

As stated in the beginning, the object of this study was two-fold; to ascertain the natural resource taxes paid in Texas, and a comparison of the taxes paid in the three states under consideration, Texas, Oklahoma and Louisiana.

The comparison of the rates in the three states is shown in the following table:

	Texas	Oklahoma	Louisiana
Oil Per Bbl. _____	\$0.0775	\$0.0613	\$0.08078
Gas Per M. _____	.00137	.00088	.00300
Sulphur Per Ton _____	1.53	None	1.03(?)

It will be noted in the text that the question of ad valorem taxes on sulphur in Louisiana is left unanswered for the reason that no statistics are available. The comparative figures on sulphur in Texas and Louisiana are only tentative. It has been shown, however, that the gross production tax rate at the present time is exactly the same in both states.

Another thing that must be remembered is that no consideration whatever has been given to any species of tax other than what may be strictly called PRODUCTION tax.

It is seen from the above tabulation that the per barrel tax on oil in Louisiana was about 3¼ mills greater than in Texas, and nearly 1¼c higher than the average in Oklahoma. The difference in the rates in Louisiana and Texas, as noted, is slight, and in all probability would be wiped out if city taxes (which are shown to be considerable) and road and other district taxes could be calculated.

On gas we see that Louisiana collected 3 mills, Texas 1 37/100 mills and Oklahoma 88/100ths of 1 mill per thousand cubic feet. These figures which are deemed to be as nearly accurate as is humanly possible to make them, show, therefore:

(a) That Texas and Louisiana are collecting, to all intents and purposes, equal taxes on their oil and nearly 2c per barrel more than is being collected in Oklahoma.

(b) That Louisiana is collecting a little more than twice as much as gas than in Texas, and a little more than three times as much as Oklahoma, while Texas is collecting considerably more than Oklahoma.

(c) That the GROSS PRODUCTION tax on sulphur in Texas and Louisiana is uniform.

This analysis and comparative study reveals another pertinent fact, that is the relative amounts collected in the various states for local uses.

It has been shown that the local subdivisions in Oklahoma can only receive 20% of the taxes. In Louisiana they are allowed 20% of the taxes with a maximum however, of \$200,000 to any one parish from oil and gas, and 1/3 from sulphur with a maximum of \$100,000.00 to the parish.

Due to the different systems of direct local taxes prevailing in Texas, however, we find the local subdivisions are collecting much higher percentages.

A break-down of the situation above shows that Texas receives 3.48c gross production and about 1c ad valorem tax, a total of 4.48c per barrel on oil, while the local subdivisions receive the remainder or 3.27 cents which is approximately 42 per cent going to local subdivisions as contrasted with 20 per cent in Oklahoma and Louisiana.

It is shown that in Oklahoma the state receives from oil 4.9 cents per barrel and the counties 1.23 cents while in Louisiana the state receives about 6.47 cents and the parishes 1.61 cents. The following table shows the amount of state and LOCAL taxes on oil. The other resources would be comparable:

	State	Local	Total
Texas	\$0.0448	\$0.0327	\$0.07750
Louisiana0647	.0161	.08087
Oklahoma0490	.0123	.06130

It is believed that the taxes in Texas exceed this amount, because city taxes, road district taxes and numerous other district taxes levied on oil are not taken into the account for the reasons stated, and these would increase the local taxes as well as the total used herein for comparative purposes.

*Oklahoma Tax Commission Report*CORPORATE INCOME TAX PAID BY NATURAL RESOURCE
INTERESTS IN OKLAHOMA FOR 1938

	Number of Returns	Tax Liability	Per Cent to Total
Natural Resources	368	\$1,905,122.09	40.08

The groups accounting for most of the tax reported in 1938 are manufacturers and processors, wholesalers and jobbers, retailers, producers of oil and gas and other natural resources, insurance and financial companies (chiefly banks), and the utilities group, of which pipe line companies reported the major part.

With respect to the large proportion of corporation income taxes paid by producers of oil and gas and related industries, a study of Chart 6 will prove illuminating. This chart is found on page 45. Most significant in this graphic presentation is the relatively large proportion of the total tax reported by producers of natural resources and pipe line companies. These two classifications together accounted for 51.11 per cent of all corporation income taxes reported in 1938. In addition, most of the tax credited to manufacturers (12.74 per cent of the total) was probably reported by manufacturers of oil field equipment and refineries, so that the oil industry may directly be credited with at least 60 per cent of all corporation income tax.

REPORT OF MINNESOTA TAX COMMISSION ON MINNESOTA
RESOURCE TAXES

The change made by the Legislature in 1937 having to do with mineral taxation was solely that of changing the rate of taxation. The rate upon the Occupation tax and Royalty tax was uniformly 6 per cent up to the year 1937. The amendment above referred to changed this rate to 10 per cent for the year 1937 and 8 per cent thereafter. With this exception the law covering Ad Valorem taxation, as also Occupation and Royalty taxation, is in all particulars as printed in the 1936 Biennial Report, the Ad Valorem tax being printed upon page 95, the Occupation tax on page 101, the Royalty tax on page 103 thereof.

Referring now to paragraph 2, item 1, we cannot answer this question specifically because the tax on "natural resources," which in this State means exclusively iron ore, is made up of three separate taxes.

a. Ad Varolem tax. This tax is arrived at by finding the full and true present worth value of ore and assessing same at 50 per cent of that value. The amount of tax then depends upon the millage rate of the taxing district within which the ore lies, that is, the valuation

found by this Commission is used to produce taxes for local, county and state purposes. In order to note the effect of this levy we refer you to Table 2-A, page 127, which shows the proportionate amount of Ad Valorem tax over the years through which mineral taxation has been applied and the proportion of same that has been levied for the benefit of State, county and local needs.

b. Occupation tax and Royalty tax. These taxes are levied and collected directly by the State, the full amount of same coming to the State Treasury. A portion of the moneys coming from these taxes, that is, one-half of the Occupation tax, goes into trust funds (40 per cent allocated to the general school fund and 10 per cent to the University School fund). The other half of the Occupation tax and the entire amount of the Royalty tax go to the general fund for current use.

Referring to item 2 of paragraph 2, there are no other taxes which come to the State directly from natural resources but indirectly the State benefits from its income tax paid by individuals upon profits received (royalties). The Occupation tax is in lieu of income tax in connection with the mining of iron ore.

MINNESOTA TAX COMMISSION

By C. J. O'Connell

Iron Ore Division

Excerpt from

ECONOMICS OF THE PETROLEUM INDUSTRY

By

JOSEPH E. POGUE

Vice-President of The Chase National Bank of the City of New York

.....

According to the Petroleum Administrative Board* of the U.S. Department of Interior, which has made an exhaustive accounting study of the cost of producing crude oil in the United States, the average production cost was 86 cents per barrel in 1931, 81 cents per barrel in 1932, 71 cents per barrel in 1933, 80 cents per barrel in 1934, and 80 cents per barrel as the average for 1931-1934. For the entire period, and covering the production reported, it was found that 10 per cent of the oil had a production cost of under 40 cents per barrel; 50 per cent of the oil, from 40 cents to 79 cents per barrel; 25 per cent of the oil, from 80 cents to \$1.19 per barrel; and 15 per cent of the oil, from \$1.20 to \$4.40 per barrel and above.

*Report on the Cost of Producing Crude Petroleum, Washington, 1935.

These figures reveal a wide amplitude in production costs, which is caused primarily by the greatly varying size of wells. This cost range, of course, constitutes a difficult problem in utilizing price alone as a regulator of production. Prices disastrous to stripper wells are required to render the flow of large wells uneconomic. A neglected element in the practice of crude oil accounting is the cost of replacing the produced oil by means of new discoveries; accounting systems in vogue do not resolve this question. In the long run, replacement cost must be the deciding factor in the price of crude oil.

THE PROGRESS OF PRODUCTION

By

H. S. MOSS

Of Moss Petroleum Co., Dallas, Texas

(From *Southwest Business*, Vol. 19, No. 5, May, 1940)

.....

Today more than 95,000 wells are producing oil and gas in 147 of Texas' 254 counties. A total of 186,000 wells have been drilled at a cost of over three and one-half billion dollars. More than one billion dollars have been spent by the Texas oil man for dry holes alone (which now exceed 52,000) in his constant search for new oil reserves for our State and Nation. And, as a result of his optimistic diligence, Texas now has over half of all the known oil reserves in the entire United States.

Each year Texas produces approximately two-fifths of all the petroleum in the United States. In addition, our State furnishes one-third of the total national supply of natural gasoline and four-fifths of the Nation's requirements of carbon black.

Today over fifty million acres of Texas land—approximately one-third of the total land area of our State—are under lease to the oil man for exploration and development. Last year he paid the Texas farmer and rancher over \$132,000,000 for leases and royalties on this land. To date, more than four million acres of Texas land have proven productive of oil or gas—four million acres of oil—the largest amount of productive oil land in any area in the world.

No longer is the production of oil a boom proposition. The most scientific aids known to man are brought into operation that production be established with a minimum of waste to our natural resources. Sound engineering practices determine the rate of flow so that the wells will produce for twenty or thirty years, becoming a boon to mankind because of the intelligent operation of what is considered by oil men a public trust.

With the discovery of the East Texas field in 1930, the oil business became Texas' largest industry, with its leadership conscious of its obligations and striving with every facility at its command to stabilize for the good of its future.

Although only a decade has passed, the fruits of the labors of a far-sighted leadership is revealed in the great benefits that have come to our State. These are even more apparent when viewed in the light of past performances and realizing that our nation was facing its greatest economic crisis. Yet in Texas during this decade (as a recent study of leading Texas cities shows) we had an increase in these larger population centers of from 10 to 370 per cent in employment, payrolls, buildings, bank deposits, export tonnage, automobile registration, paved highway mileage, gasoline tax collections, telephone and electric light meters, taxable values and State and local tax revenues. During the darkest time in the Nation's history, Texas enjoyed its greatest decade of solid growth and development—unquestionably the petroleum industry is to be credited with much of this unusual growth.

With a total of sixteen billion barrels of petroleum discovered so far in our State, the Texas oil man has produced to date six billion barrels to create over seven billion dollars worth of wealth for our State and its people. Approximately ten billion barrels of this—almost twice as much as we have produced to date—still remain underground.

These ten billion barrels of oil yet to be produced, plus the additional petroleum constantly being discovered, constitute the greatest guarantee of security of income and employment that Texas and Texans have. They are the reserves for living of one million of our people who depend entirely upon oil for their livelihood, and of five million others who get a part of their income from the redistribution of the wages of these millions.

DRILLING FOR LIQUID GOLD

By B. C. Clardy—Heyser, Heard and Clardy, Inc.
Dallas, Texas

(From *Southwest Business*, Vol. 19, No. 6, June, 1940. Dallas, Texas.)

Drilling an oil well sounds like a very romantic business indeed. In a way, it is, but it is also a business which taxes the brains, industry, ingenuity, and often the financial resources of the entire petroleum industry. It is, of course, one of the most important branches of that vast industry because upon its success depends a great deal the success of the business itself. I doubt if the average

citizen has any idea of the vast extent of the oil well drilling business in Texas. The fact is that Texas has by far the largest number of producing oil and gas wells of any state in the nation, and for more than even any other nation. The total has now reached over 92,000 producing wells. There are, regrettably enough, an additional 52,420 dry holes drilled in the state in the search for new oil and gas reserves. The figures on the cost of these wells are even more staggering. Allowing an average cost of \$20,000 for leases, overhead, equipment and drilling, these 52,420 dry holes have cost the Texas drilling industry the stupendous sum of \$1,048,400,000, and this money is sunk forever in the barren breast of mother earth. However, strange as it may seem, there is an entirely happy aspect to this. Before I point it out, I want to hasten to add that dry holes are necessary to establish the limits of producing fields, and even though the staggering sums mentioned have been sunk in dry holes, they have served their purposes and have established fields with reserves worth many more times than even the billion odd dollars.

The happiest side of it is, of course, that while a lot of this money has been lost to the oil men, even dry holes bring prosperity to the farmer and rancher who lease their lands and sell their royalties, to the businessmen of the community where the living expenses of the workers are spent, and to the hundreds of artisans and others who produce the machinery necessary to the drilling of wells. Also contributed, as even the drilling of dry wells progresses, are large sums of taxes, bringing countless benefits to the entire community and its people.

One aspect of the oil drilling business is seldom commented upon, and that is, the prevailing wages in the industry are higher and the hours shorter than in almost any other industry. This is, of course, a contribution to the betterment of the working classes of the State.

As we proceed to search for and discover oil at greater depths, the cost of drilling and equipping wells has been steadily rising so that in 1937, when it reached its peak, the average cost per well was higher than ever before. A few more figures concerning the industry likely will be interesting. These figures obtained from the Railroad Commission show that in 1939 the total number of completed oil wells in Texas was 6,671, comparing unfavorably with 8,893 completed oil producers in 1938 in our State. Dry holes drilled in 1939 by Texas oil men numbered 2,846 compared with 2,288 in 1938. In 1937 there were 11,030 producing oil wells and 2,820 dry holes drilled in our State.

Thus there was a drop of 2,669 in 1938 under 1937 in total number of wells and dry holes drilled, and a drop in 1939 under 1938

of 1,664 wells and dry holes drilled, a total loss for the two years of 4,333 wells and dry holes. (Of course, a dry hole may cost the oil operator much more than a producing oil or gas well.)

That's a loss of nearly 20 per cent in 1938 compared with 1937 and of nearly 15 per cent in 1939 compared with 1938. The decline in Texas drilling compares with a national decline of only 2.6 per cent over the United States in 1939 when 27,550 wells were completed, or 722 below the 27,272 completed in 1938. Thus many states showed a good increase in drilling activity in 1939 to make up most of the loss in Texas that year.

The slight national decline in drilling was attributed to various difficulties of the industry which were reflected in a cut from \$1.15 to 98 cents per barrel in the average price of crude oil. In Texas, however, according to Texas Mid-Continent Oil and Gas Association figures, the drop was not so sharp, the Texas average price being around \$1.03 per barrel. The conclusion is that something else must be the major factor in causing Texas drilling to drop, and the almost inescapable conclusion is that it is the continual increase in Texas taxes on the oil man.

Predictions for 1940 are that the Texas oil man will drill about 9,864 new oil tests. Illinois is expected to sink about 3,050 compared with 3,806 in 1939, and Oklahoma is due to add about 2,188 in 1940 compared with 2,081 drilled in 1939.

Excerpt from

AN ADMINISTRATOR'S VIEWS ON PRORATION

By

Ernest O. Thompson, Chairman, Interstate Oil Compact Commission,
Member, Railroad Commission of Texas

Before the American Institute of Mining and Metallurgical

.....

Engineers, at New York City, New York, February 16, 1939

Today, guardians of America's greatest natural resource face a decision. Stated simply, shall America intelligently save and use for defense and for peace the world's finest energy reservoir.

An earlier generation struggled intelligently with forest conservation. We face a conservation battle immeasurably greater. This battle for the intelligent saving of oil must go on—today—tomorrow—until such time as this country, in peace, or in war, has a better medium or material.

In the last word, this *first* resource belongs to, and is here for, 130,000,000 people.

They must have it for use in their life processes. Today any other approach to oil conservation is unthinkable.

I feel strongly the necessity in these times that the spirit of guardianship be paramount. Broad public welfare controls any charting of a practical course. Profit and detailed material concepts must be subordinated to the problem of the individuals living in America today and tomorrow.

Today, I wish to discuss first the economic trend of oil production.

Very little that I will say here today will be new. You are all aware that the per well revenues are steadily being reduced and that if this trend continues there will come a time when it will no longer pay to drill new wells. The purpose of this talk is to emphasize that we are now at that point. We have drilled too many wells. More wells do not make more markets. It would be all right to drill if we could sell the oil. But only so much can be sold.

I have here a table giving the figures for the State of Texas for the years 1937 and 1938, and have estimated 1939.

	Total Revenue	Total Barrels	Number of Wells	Per Well Allowable	Price	Per Well Revenue
1937	\$594,500,000	519,318,000	77,360	19.4	\$1.16	\$7,685
1938	514,800,000	468,000,000	85,387	15.0	1.10	6,029
1939	465,600,000	480,000,000	91,400	14.4	.97	5,094

This is a picture of a steady shrinkage in the total revenues of the oil producers of Texas and a still more rapid decline in the per well revenue.

The average per well cost, including lease equipment, is around \$25,000. From the \$5,094 must be deducted the one-eighth royalty, together with all operating costs, including taxes. If one should subtract a five per cent interest charge, the balance, if continued, will pay the well out in between ten and fifteen years. However, the increase in wells in 1940 and 1941 if we do not go to wider spacing will almost certainly exceed the growth of any market that we can now expect, and one must either assume an increase in price or accept the fact that the per well revenue will drop again in 1940 and still further in 1941. A very slender margin is left in 1939 for capital return. By 1941 this may very easily have disappeared unless wider spacing is adopted.

Last week down in Texas I heard a man testify under oath that the well which he was going to drill would, under the present rates of prorated production, require twelve years to pay out. He swore that he knew that it would take him twelve years to get his investment back with oil at the present price. I had him repeat his testimony and asked the press represented at the hearing to take notice. I assume he was not awake to the almost inevitable decline in future

revenues. Had he been so he would have been an optimist indeed to have drilled the well.

What I am saying is—bluntly—that the oil business is putting too much money into the ground—drilling too many oil wells. Production loans are proper if they represent the use of capital in an enterprise from which the money will be returned with reasonable interest. Capital has never been so abundant, and has never been more hard put to find sound and attractive loans. The oil business, however, has gone through a peculiar cycle. I can well remember when banks looked with suspicion on loans for the purpose of drilling oil wells. Prior to 1930 the oil business was regarded generally as being no place for careful money. During that period the profits were large and those profits reinvested took care of much of the capital requirements of the industry.

Beginning about 1930 the banks began to increase their oil loans. As production, through proration, became more stable the volume of such loans increased. Then came the depression, and good production loans, reducing each month, proved to be the best paper in the banks.

This history has built up what is now almost a tradition: That oil paper is safe. The trouble with a tradition is that it continues long after the fact basis that created it has disappeared.

It has been urged that the reserves will, in time, become depleted, and that oil will increase in price. A few short years ago—in 1925—there was a great hue and cry over the land that we were about to run out of petroleum. At that time it was estimated that our reserves were in the neighborhood of five billion barrels. People said we were going to play out of oil. Scarcity was impending. Let's see what happened!

Since that date we have consumed eleven and one-half billion barrels of oil. Today we have approximately fifteen billion barrels of oil in reserve in the ground; two hundred seventy million barrels above the ground in storage; gasoline stocks of seventy-five million barrels and gas and fuel stocks of one hundred million barrels.

Truly we have not run out of petroleum. We are able to today to obtain almost twice as many gallons of gasoline out of a barrel of oil as we did in 1925. There has been perhaps a 50 per cent increase in consumption. This balances out to where we were in that year. This, of course, is a very general statement, but it does forever bar from the picture those who would cry out we are about to exhaust our petroleum supply. I do not expect to see an exhaustion of petroleum. Long before our petroleum is exhausted there will be ample and adequate substitute economically produced. . . .

NEWS REPORT

YEAR 1939 NOTABLE FOR OIL INDUSTRY;
DEMAND IS GREAT

(From *Victoria (Texas) Advocate*, January 17, 1940.)

Tulsa, Okla., Jan. 16.—The year 1939 was a notable one for the petroleum industry. The demand for petroleum and its products totalled 1,429,000,000 barrels, according to estimates prepared by the Independent Petroleum Association of America in advance of final government statistics.

This demand included 195,000,000 barrels to export trade and, taken in its entirety, it represents a gain of 6.6 per cent over the previous record year, 1937. The export volume was also the largest export year.

On the basis of the preliminary figures, the total production of crude oil was approximately 1,265,000,000 barrels. That is not a record. It is one per cent lower than the total produced in 1937, but is 4 per cent above the 1938 yield.

The producing industry went through another year of depressed prices. The Independent Association's calculation is that the average price of 98 cents per barrel paid at the wells is 13 per cent lower than the 1938 average and 16 per cent below the 1937 price. This average price, of course, is composed of numerous and widely varying prices throughout the 23 oil-producing states. Affording some profit to the operator in some areas, the prices paid for crude oil in 1939 were notoriously inadequate as to the output of many thousands of small, pumping wells, commonly called "strippers," which represent at least a third of the national reserves of petroleum.

In 1934 the Federal Government surveyed the cost of producing oil, found then that costs well in excess of \$1.00 per barrel prevailed in many fields. Since then the oil producer has operated under still greater cost burdens. Taxes have gone up and labor costs have increased. There have been advances in the price of equipment. So substantial has been the increase that a partial survey by a federal agency shows that the 1934 average net cost of producing oil in Kansas of 88 cents per barrel had gone up to 97 cents in 1937. That upward trend was not reversed in the next two years.

The year 1939 was notable in that two states were added to the list of those having oil production and making a total of 23. The newcomers are Mississippi, which previously had commercial production of natural gas, and Nebraska. Two states, Illinois and Michigan, set new high marks in annual production with the greatest gain, both in volume and percentage, recorded by Illinois. Other states to increase production over 1938 were Arkansas, Indiana, Montana, New Mexico, Texas and Wyoming and losses in the annual total were

shown by California, Colorado, Kansas, Kentucky, Louisiana, New York, Ohio, Oklahoma, Pennsylvania and West Virginia. Not all such losses, however, represent the inability of the state to maintain the 1938 figure, as market demand for crude oil played its part, in recent years, oil producers have made much headway in acting on the principle that the best storage for petroleum until it is needed is in its natural reservoirs.

During the year, Kansas joined the list of states that had produced more than one billion barrels of petroleum. Kansas became a producing state in 1889 and to the end of 1938 had produced 967,259,000 barrels. The State's total production for 1939 was a little under its 1938 figure of 59,587,000 barrels, but more than enough to put the all-time recovery above the billion barrel mark. Other states that have produced more than one billion barrels are Texas, Oklahoma and California. Louisiana will without doubt become the fifth billion-barrel state in 1940.

Imports of oil from foreign countries was about 61,000,000 barrels; largest figure since the imposition of excise taxes on imported oil in 1932. Late in the year, the State Department announced that under the new trade agreement with Venezuela, excise taxes on imported crude oil and fuel oil are cut in half. The Independent Petroleum Association of America campaigned successfully to obtain the tax in 1932 and is leading the fight to obtain relief from the State Department's action.

The industry continued in the unenviable role of being the most heavily taxed of all industries. Well over a billion dollars were collected on gasoline and lubricating oil in 1939 by state and federal governments and other taxes paid by the industry will total \$300,000,000 or more for the year.

The petroleum industry in 1939 maintained its record of being the highest wage-scale industry in the United States. It was an active year, both in drilling and in refining, hence employment continued at near the level of 1938.

In surveying the achievements of 1939, Frank Buttram, president of the Independent Petroleum Association of America, called attention to the steadily narrowing zone between costs of operation and prices received.

News Report

TEXAS OIL POOLS HAVE PRODUCED 6 BILLION BARRELS

By International News Service

Austin, March 16.—Since oil pools were first discovered in Texas they have poured more than 6,000,000,000 barrels into world markets.

Total production for the State through 1939 amounted to 6,058,786,433 barrels, according to a summary prepared by John E. Taylor, chief supervisor, for the annual report of the Railroad Commission's oil and gas division.

It was believed to be the first authoritative report on total Texas production ever prepared by a state agency.

Data was gleaned from many sources. For the past several years the commission itself has kept a production record, but prior to that time the only records available were those of the comptroller, made in connection with tax payments, and those of oil companies.

In addition to the state production summary, the annual report will show the cumulative production of every field in Texas, including fields which have been exhausted and abandoned, Taylor said.

ETEX ASSOCIATION PROTESTS IMPORTS

(News Report, *Dallas News*, June 22, 1940)

Kilgore, Texas, June 22.—President Roosevelt and Secretary of State Cordell Hull were asked Saturday in a resolution adopted by the East Texas Oil Association to limit the importation of foreign crude oil and its products as a contribution to the stabilization of the United States petroleum industry.

The resolution, drafted by H. P. Nichols, executive vice-president of the independent organization, pointed out that imports have increased 141.1 per cent from 67,384 barrels daily to 162,463 barrels daily, during the first quarter of 1940, as compared with the same quarter in 1939.

U. S. OIL RESERVES REACH RECORD 18-BILLION HIGH

New York, March 24, 1940—(AP)—The "proved" oil reserves of the United States increased 1,134,866,000 barrels net in 1939 to a new record of 18,483,012,000, the American Petroleum Institute announced Sunday.

The net increase was calculated after deducting actual production of 1,264,256,000 barrels from the 2,109,122,000 in reserves discovered or developed in new and old fields, the institute explained.

The committee on petroleum reserves emphasized the figures represented "only a conservative estimate" by geologists and oil engineers based on present production methods.

Many untapped areas.—"No estimates are included for oil which still is to be found in areas known to be favorable to the accumulation of oil but as yet untested," it was noted.

Most of the expansion in reserves came from development of fields discovered before Jan. 1, 1939, with new production in 14 states accounting for a minimum of 340,667,000 barrels in reserves.

Texas, top-ranking state in reserves, added 805,134,000 barrels to the underground oil inventory and California was second with 567,933,000.

Illinois is third.—Illinois, rising fast as an oil-producing state was third. It accounted for 233,021,000, making total proved reserves 381,636,000 barrels compared with only 40,884,000 on Jan. 1, 1938.

Reserves of 100,000,000 barrels or more also were added in Arkansas, Kansas and Louisiana.

For the first time Mississippi and Nebraska entered the list, having discovered oil in commercial quantity last year. New pools in these states were estimated "conservatively" at 6,800,000 barrels.

The tabulation.—Proved reserves of leading oil states were tabulated as follows:

Texas, 9,768,371,000; California, 3,532,342,000; Louisiana, 1,173,225,000; Oklahoma, 1,063,152,000; Kansas, 725,467,000; New Mexico, 687,168,000; Illinois, 381,636,000; Wyoming, 305,616,000; Arkansas, 320,148,000.

News Report

SURVEY SHOWS WAR EFFECT ON OIL EXPORTS

(*Dallas Morning News*, July 4, 1940)

Washington, July 4.—Contrary to belief held by many oilmen in the United States at the time hostilities broke out in Europe last September, there has not been an increase in the foreign demand for petroleum and petroleum products, but the demand has been cut practically in half. The Bureau of Foreign and Domestic Commerce has just completed a detailed study of the foreign movement of petroleum products from the United States during the eight-month period from September, 1939, through April, 1940, with comparative figures for the corresponding months in the 1938-39 period.

"When the war broke out in Europe, it was generally supposed that military operations would use up in a short time much of the oil in storage, necessitating early replenishment, some of which would be furnished by this country," the report states. "Instead, curtailment of civilian consumption and delaying of total war until comparatively recent weeks resulted in curtailment of American oil exports to Europe.

"Exports of crude and all refined oils during the first eight months of the war totaled 33,547,000 barrels, a decline of 19,721,000 barrels from the corresponding period of 1938-39."

Future Hard to Gauge

"With foreign developments taking place so rapidly," the report concludes, "it is easy to go astray in estimating the future. Certain features of the international oil situation, however, appear obvious.

For practical purposes, the whole of Europe and the Mediterranean region, except the British Isles, Spain and Portugal, are now closed as outlets for American petroleum products. On the other hand, with the Mediterranean unsafe for British tankers, oil from Iraq, Iran, Hahrein Island and Netherlands India must be convoyed or take the longer route around the Cape of Good Hope. Due to the longer time required for oil from the Near East and Far East, Britain may endeavor to obtain an increasing proportion of its needs from the United States and Latin America."

PORTION OF TEXAS OIL MARKET LOST TO OTHER STATES

Official Figures of Commission Are Cited

(News Report—*Marshall News Messenger*, April 21, 1940)

Texas oil producers have lost over 68,000,000 barrels of their normal market in the last two years to other oil states with lower taxes, according to figures just assembled by the Texas Mid-Continent Oil and Gas Association from official sources.

Official figures from the Texas Railroad Commission, oil control board, show that for 1939 Texas oil production was 33,500,000 barrels under the U.S. Bureau of Mines estimate of demand. This underage is classed by the Texas rail body as the State's loss of market to other oil-producing states.

In 1938, Texas' production was reported by the State Comptroller's Department as 476,193,189 barrels for the State as reported by the U.S. Bureau of Mines; this was a drop of 34,538,811 barrels. Added to the 33,500,000 underage this is a loss of 68,038,811 barrels for Texas in the past two years.

At the average price of \$1.17 per barrel for Texas oil in 1938, that represented a loss to Texas producers of \$40,411,308. Adding to this the Texas loss to other states of 33,500,000 barrels in 1939 at \$1.03 average price per barrel, or \$34,505,000, the total for the two years is \$74,916,308, or virtually \$75,000,000 out of the pockets of Texas oilmen.

Much of the loss was to Illinois where taxes levied on oil producers are less than two cents a barrel, or one-fifth of Texas' average tax now of around 9.8 cents per barrel on every barrel of oil produced in this State. Many Texas oilmen pay much higher taxes than this, with the total in some counties as high as 14 to 17 cents per barrel.

Adding to Texas oil producers' taxes last year was 57 per cent increase in State ad valorem tax rate by the State Automatic Tax Board. Preliminary studies by Texas Mid-Continent Oil and Gas Association economists indicate from 15 to 20 per cent increase in local and school taxes on oil properties.

The history of taxes on the Texas oilmen has been one of constant increases. The 1938 tax average was 11 per cent above the average paid in 1937, and 22 per cent over the 1935 tax rate. In numerous counties of the State, reduced oil production and further increase of the tax load have added from 3 to 5 cents more per barrel to the oil producers' tax costs. Many Texas oil producers pay an average of around 12 cents per barrel in State and local taxes.

The 1939 State-wide average of around 9.8 cents for Texas is the highest of any oil State in the Nation. Louisiana is second with an average tax per barrel of 8.7 cents, and Oklahoma third was about 8.4 cents.

WAR SQUEEZE ON SMALL FIRMS BRINGS CRISIS

Commission Believed Ready to Order State Closing for Five Days
News Report, *Dallas News*

By

JAY HALL

Oil Editor of *The News*

French Falling Brings Climax

Although there was no verification at hand, the number of shutdown days most reliably mentioned was five with their promulgation to be immediately effected.

What lay behind this scene of action had its climax with the Monday capitulation of the French government to Hitler's army.

On the coast from Corpus Christi to Port Arthur are scattered the refineries of small companies, some with production to supply their plants and others buying on the market. Here too are the terminals of the smaller pipe-line systems, taking short-haul crude from the various fields scattered from the Rio Grande to the Louisiana line.

In past months these small companies have been the main source of supply for the European nations able to send their tankers to the Texas coast. Long-term contracts were signed and the operation of the companies were subject to the extent and terms of these contracts.

Italy Was First Blow

These contracts were written with the usual war clause, making such a condition an automatic grounds for breaking the agreement.

As the war progressed, exports began to diminish and stocks mounted as European nations found it more difficult to send tankers abroad.

Many of these small companies received their first severe blow when Italy joined in the war and halted her fairly extensive buying.

The big blow came Monday when France asked for peace. Those companies which had banked on the French holding out were caught. Their storage tanks are full of gasoline, and no immediate market is in sight. Their pipe line connections continue to furnish them oil, and no tankers are available to receive it.

Those companies face a crisis, and the producers who are furnishing them with crude are caught in the web. The well-being of these small companies is an integral part of the stabilization of the Texas oil industry. If they fall under the pressure, the effect will be felt elsewhere.

Seek Breathing Spell

Faced with this dark outlook, representatives of these companies petitioned the Railroad Commission for action. They needed a breathing spell in which to adjust their affairs, time in which to unload part of their stocks, protect their position and handle their connections.

Being small companies, they are not in a position to control the market or weather the storm without outside help. They might cut the price of crude and gain at the expense of the producer some temporary relief, but unless the major companies joined in the price cut it would not be effective.

The big companies through their huge domestic outlets are not affected as the small companies are. Their exports are only a small part of their operations.

In buying huge quantities of oil, the big companies dominate the price, and the structure has been fairly stable since the shutdown of last August. Having gone through the experience of trying to maintain a price cut in the face of opposition, the big companies are no longer willing to tamper with the structure.

WITH OIL RESERVES MOUNTING, TEXAS PRODUCERS NEED TO HUNT NEW MARKETS, TAYLOR BELIEVES

(The Dallas News, Dallas, Texas)

Austin, Texas, May 14.—With oil reserves increasing more rapidly than production, Texas' most pressing problem for some years will lie in discovery of markets rather than new fields, Chief Supervisor John E. Taylor of the Oil and Gas Division predicted.

Taylor summarized that "there certainly is little probability that inclusion in the forthcoming annual report of the division.

Tyalor summarized that "there certainly is little probability that a scarcity of oil in Texas will be experienced for some time and that the decline in the number of wells drilled has had, if anything, a salutary affect on exploration efforts."

Sixty-nine new fields were discovered last year which, with revaluations and increases resulting from extensions and development of new horizons in older fields, added an estimated 1,800,000,000 (billions) barrels to Texas reserves.

Production Percentage Drops

On January 1, 1937, the estimated known reserves of crude in Texas totaled 6,422,000,000 (billion) barrels, or 49.2 per cent of the total known reserves in the United States, he reported. In three years, Texas' reserves increased to 10,794,055,000 (billions) barrels, or 54.8 per cent.

"A picture of the distribution of oil reserves over the country, as compared with the pattern of production," he summarized, "is illustrated in the following tabulation which shows that while reserves of the State have increased from 49.2 per cent to 54.8 per cent of the United States' total, production in Texas has declined from 39.9 per cent to 38.3 per cent of the national total the last three years.

"It is apparent that Texas' most pressing problem for some years will lie in the discovery of markets rather than fields. Since January 1, 1937, Texas has produced 1,462,710,000 (billions) barrels of oil; yet her reserves on January 1, 1940, were over four billion barrels greater than at the beginning of 1937. Expressed in another fashion, the increase in estimated reserves during the last three years is equivalent to approximately three times the total production in the State during the same period, which brings out the further fact that after producing almost 1,500,000,000 (billions) barrels since 1937, Texas' reserves are today 68 per cent greater than they were at the beginning of that year.

Refiners Assured Future Supply

"This growth is important to the general interest of the State, but to the 123 refineries which operate in Texas and process approximately one-third of all the crude refined in the United States, it has an immediate and direct significance—a larger assured supply means a longer operating life. These refineries, having a maximum capacity of 1,450,000 barrels of crude daily, ran a total of 402,026,464

barrels to stills in 1939 and recovered 185,616,000 barrels of gasoline. The average yield was 46.2 per cent, as compared with 45.3 per cent in 1938, when crude runs to still totaled 374,829,000 barrels and gasoline produced amounted to 169,739,000 barrels.

In another section, Taylor reviewed production and development, reporting that production last year leveled off after undergoing a substantial drop in 1938. Last year's production was 476,550,000 barrels, an increase of 700,000 barrels, or .15 of 1 per cent, over 1938, but still 6.62 per cent under the 1937 total.

While the number of producers continued to grow, the rate was lower than in previous years as wells gained 4,527 to 89,914. The increase in 1938 was 8,027 and in 1937 it was 9,306.

"This evidence of diminished development activity in Texas fields," he said, "carries through into the drilling statistics for the State, which show that total completion (oil wells, gas wells, and dry holes) have declined from 14,275 in 1937 to 11,810 in 1938 and 9,325 in 1939.

Pay-Out Slows Drill Work

"Although drilling operations undoubtedly have been affected by price changes and the trend toward wider spacing, it is probable that the primary influence leading to drilling curtailments in recent years has been the consistent reduction in well allowables and resultant extension of the pay-out period.

"Average production in Texas during 1937 amounted to 6,597 barrels per well, or 18.1 barrels a well daily. In 1938, as a result of a general contraction in the market for oil and an increase in number of wells, the average production per well slipped to 5,573 barrels, an average of 15.3 barrels daily, and a decline of 15.5 per cent from the previous year. A still further decline was experienced in 1939, when the average per well production dropped to 5,300 barrels, a decrease of 4.9 per cent, and an average of 14.5 barrels per well daily."

The drift toward a continual increase in the number of wells and a corresponding increase in per well output is shown, he said, by tabulations revealing that while production in 1938 dropped 6.75 per cent and gained .15 of 1 per cent last year, the number of wells increased 10.4 per cent in 1938 and 5.3 per cent in 1939. As a result, the average per well allowable dropped 15.52 per cent in 1938 and 4.9 per cent last year.

AFFIRMATIVE READING MATERIAL

Excerpts from

"THE SEVERANCE TAX"

By

GEORGE VAUGHN

Bulletin of National Tax Association, Vol. II, pp. 243-250

The Rationale of the Severance Tax

. . . Agitation for the enactment of a severance tax has been prompted in several states, mainly by consideration of the necessity of conserving our natural resources. The theory has been that owing to the limited supply of the basic resources, which have been accumulated by the gradual operations of nature, definite restrictions should be placed by the State upon their utilization. Even though held under private ownership, all waste or extravagant depletion should be prohibited, and a specific tax upon such products, when and as "severed from the soil," would tend to retard undue consumption.

This theory, while sound, perhaps, when addressed to the general public policy of the State or Nation, may or may not hold good when borrowed and applied by the Revenue Department. Let us see.

Legal Status

Three general classes of taxes have found exemplification and judicial approval in this country, viz.: (1) a property tax, i.e., one based on capital value; (2) a business or privilege tax, and (3) an income tax. For many years the field of the privilege tax has been invaded by both Federal and State Governments, while that of the general property tax has been preempted by the states. The income tax has of late been jointly appropriated by the commonwealths.

Constitutional restrictions must often be reckoned with in the selection of any proposed tax. As far as the Federal Constitution controls, these restrictions are few but far-reaching. These Federal inhibitions are that no person shall be deprived of property without due process of law (amendment No. 5) construed to apply to acts of Congress only, and repeated in the Fourteenth Amendment as respects the powers of the states, with the added bulwark of "equal protection of the laws." Most state constitutions expressly require "equality and uniformity in taxation"; but in certain others, notably in New York, Rhode Island, Connecticut, and Vermont, no restrictions exist, and the legislature is left to prescribe with a

free hand any system of taxation which will not offend the principles of natural justice.

But the privilege or occupation tax does not fall within the purview of "equality and uniformity" requirements. Indeed there are very slight limitations upon the character of any privilege tax a state may choose to adopt in devising its internal revenue scheme.

A distinguishing feature is, however, that the privilege tax is paid in advance. Its payment is a condition precedent to the lawful performance of the act or to engaging in the business for which the tax or license fee is exacted.

Notable instances of business taxes are, the franchise tax on corporations, the federal capital stock tax, and occupation taxes familiar to all, and applicable to the businesses or professions of individuals or corporations.

A Privilege, Not a Property Tax

It is within the class of the privilege or occupation tax that the severance tax belongs. In every state where it exists the tax is levied expressly upon or for the privilege of carrying on certain business transactions. For this reason, and in the absence of the iron-clad shackles of property taxation, there is a great disparity in the ultimate burden imposed by the tax under consideration.

In Oklahoma, for example, the tax is levied on the gross production of oil and gas and of certain minerals, but it is in lieu of property taxes on the equipment or machinery at the mines or well. In Texas, where the corresponding exaction is expressly declared to be a privilege on "gross receipts," there is no relief against the concurrent operation of the general property tax upon the same property.

The Louisiana severance tax is also an impost laid over and above the general property tax. Indeed, the present compromise rate was reached in 1920 by Governor Parker after prolonged negotiations with the oil interests. The state had been clamoring for a 4 per cent rate, but the concession of 2 per cent was finally made in recognition of the fact that payment of the severance tax in no way affected liability for general taxes. The recent anthracite coal levy of 6 per cent in Pennsylvania is superimposed upon the general property tax.

The point must be emphasized that there is no relationship between the privilege and the property tax. Indeed the body of the law adjudicating these two classes of taxes has been separately developed, so that the principles upon which the taxes rest are recognized to be distinct.

Neither does it avail as a matter of law to say that the privilege tax results in imposing a final burden heavier than that borne by

other business interests whose operating property is of the same value. The tax is a *quid pro quo* exacted in return for a privilege; it is not a levy upon property itself. Hence it is that although the Pennsylvania tax means an additional burden of \$7,000,000 upon the anthracite coal industry in that state and thus augments substantially the total tax account of the operators, it is not likely on that ground to be held unconstitutional. The fact, if true, that no privilege tax is imposed upon other Pennsylvania business interests representing corresponding capital investments will not vitiate the tax upon the industry selected. "A state may have a policy in taxation," says the Supreme Court of the United States, in the Fort Smith Lumber Company case (251 U.S. 532).

Is Conservation a Sound Basis for a Fiscal Tax?

The question then recurs as to whether the idea of conservation is a proper and legitimate basis for any form of a tax, and if so, to what extent may the machinery of taxation be put in motion by a public policy of conservation.

If natural resources, accumulated by the slow development of the ages, are a heritage of the race and not merely of one generation, then certain a privilege tax by the sovereign is justified on the sheer ground of self-preservation. Wanton destruction of timber, with no provision for reforestation, will in time transform the virgin forest into a howling desert.

No less authority than Gifford Pinchot has recently declared that an area in the State of Pennsylvania equivalent to the entire domain of New Jersey is now without trees, either present or prospective, and is hence a desert and of no useful value. No one who has traversed the states of Colorado and Nevada and other western states and gazed upon the abandoned mining camps, has failed to perceive of what little value such waste spaces are after the severance of the mineral contents from the majestic mountain sides.

The conclusion, therefore, follows that, if upon no other ground, a severance tax is eminently justified for regulating and controlling the rate of exhaustion and the method of utilizing the resources of forest, field, and mine.

Such a tax, moreover, incidentally provides authoritative statistical data so that periodic inventories may be had of our remaining wealth. The recent financing of the Great War showed the supreme necessity of an intimate knowledge of the material and economic resources of State and Nation. The Government could not commandeer its resources without the coöperation of the states and of their local subdivisions. And so any extensive program of conservation must depend upon the articulation of the massive federal machinery with the minuter instrumentalities of the states.

Granted, then, that a privilege tax for severing natural products from the soil is justified from considerations of conservation, the question arises as to how far the state may go. May she impose an additional burden under the guise of conservation for the real purpose of furnishing funds for public purposes? Or, must the rate be only nominal?

What Is a Public Purpose?

These questions strike deeply into the heart of political science. What is a lawful purpose, and what are the objects to which public funds may be dedicated? This field has broadened immensely within the last decade, not only from the state viewpoint, but from federal as well. Today it is not uncommon to see the government engage in affairs which a generation ago were regarded as strictly of a private nature. There is a pronounced trend toward socialism that we cannot gainsay.

Important phases of these activities are a broader program of education, transportation and labor regulations, public welfare, including health and the conservation of human life. Surely all of these functions are economically sound and worthy. If, then, the government is to undertake new and ambitious tasks, there must be tapped an adequate source from which enabling funds are to be drawn.

Recent years mark a tendency to let down the bars of constitutional control entirely in support of education. In my own state an amendment will shortly be voted upon which lifts all restrictions upon the amount of school taxes leviable.

Such tendencies merely indicate that so far as the public weal is concerned the sovereign's control is paramount. She has unquestionably the power to legislate with respect to the rights of private ownership. Indeed, property is not an absolute but merely a relative right. No man has a right to use his property or to waste or destroy it to the injury of his neighbor. *Sic utere tuo ut non alienum laedas.*

The owner of a large timber tract has no moral or legal right to waste or extravagantly utilize that forest for his own enrichment by destroying the seeds of a commodity which could serve the future generations of the race. Neither has a corporation or an individual the right to tap underground reservoirs of oil and gas and permit valuable commodities to waste and lose their service to humanity.

Then if the doctrine is sound that a fiscal tax on output is justified, and can be levied as a privilege exaction, there would seem to be no serious obstacle in the way of employing the severance tax further as a supplemental source of revenue. In amount it

should be sufficient, when combined with the inadequately administered property tax, at least to equate the burden of the affected industry with that of other business interests whose operations augment and do not exhaust our economic wealth.

Expediency an Influential Factor

An administrative motive frequency prompting the adoption of an output tax on commodities is the technical difficulty of securing a reliable appraisal of hidden value. And so we reach the *argumentum ad convenientem*.

A scientific valuation of natural deposits often involves quite a large expenditure of money. Unfortunately but few states have had an enlightened conception of the far-reaching value of an appraisal. As a result of a penny-wise-and-pound-foolish policy, many thousands of dollars in revenues are annually lost because of the crude and inadequate methods pursued in valuing mineral property for taxation.

Severance Tax a Compromise

As a matter of convenience in administration, therefore, and to offset or compensate in a degree for the enormous public loss though lack of an accurate appraisal, the severance tax may intervene as a satisfactory compromise to all concerned. While in most states it is impossible under present constitutions to provide that the severance tax shall be in lieu of the general property tax, yet the practical effect of the addition of the severance tax will bring about the desired result otherwise lost because of the incomplete valuation under general schedules.

To illustrate: In the State of Louisiana, where rich pools of oil have been recently discovered, it would be impossible accurately to appraise the oil leases, whether developed or not. Even if such an appraisal were attainable, it is doubtful whether taxing officials would have the courage to put in the assessment rolls the true values so ascertained. Yet the expedient of the severance tax enables the state immediately to secure a proper division of the realized income flowing from this peculiar property.

Such division of income will, from year to year, correspond roughly with the amount of the tax the property itself upon an adequate valuation should have yielded. Indeed, a difference favorable to the taxpayer is perceived in that the annual tax payments are adjusted in accordance with actual income realized, and hence are less burdensome than under the pure property tax plan. A delay in developing or in the marketing of the product would not carry with the lean years the unrequited burden of taxation.

Conclusions

Our examination has been limited to only a few of the numerous existing statutes analogous to the so-called severance tax of Louisiana, which imposes special taxes upon the business of severing natural resources from the soil.

We conclude from this tentative investigation:

(a) That the enactment of such a tax is within the power and is a legitimate and proper function of any state whose constitution does not prohibit privilege taxes.

(b) That the tax as exemplified in this study is a privilege or license tax and not one on property.

(c) That it is justified primarily as a regulatory provision of public policy in the broad interest of conservation of economic resources.

(d) That it is further warranted as a purely fiscal or revenue agency, supplemental to or as the complement of the antiquated and inadequate general property tax.

In the language of Alexander Bruce, writing in the *Pennsylvania Law Review*, "Patriotic citizens are beginning to resolve in the affirmative the question, 'Am I my brother's keeper,' and to recognize the existence of a common humanity and of a state and national solidarity. They are beginning to evince a concern for the generations that are to come and for the states and the nation of the future, which those generations will compose. They are coming to realize, as never before, that the welfare of the state is the highest law; that the whole is made up of the sum of all its parts, and that if the individual citizen suffers and is retarded in growth and development, the state itself is to that extent weakened and undermined."

THE SEVERANCE TAX

(From *Public Finance*, by Harley Leist Lutz, Chap. XXVI, pp. 653-655. D. Appleton-Century Co., Inc., New York City. May, 1936.)

The name "severance tax" was originated in Louisiana to describe a tax imposed on the privilege of removing, or serving, certain raw materials or natural resources from the land or water within the state's jurisdiction. Not much is known about this tax, in the sense that no one has undertaken a special study of the underlying theory, its correct relation to other taxes, particularly the property tax, or the administrative problems involved. It has certain connotations of conservation, but no one has yet shown what its actual effect in this direction may be.

Few clear examples.—If the term is to be correctly applied as defined, there are not many clear examples of its use. Various taxes

on the production of natural resources are often put in this category, but examination of their character reveals that they are either fees to cover the cost of certain supervisory and inspection services, or they are a method of taxation that has been developed as a substitute for the property tax.¹

With respect to forests, Professor Fairchild reached the following conclusion in the course of the exhaustive forest taxation inquiry:²

There is no justification for a severance tax, in addition to property or other adequate tax, in the case of forests, except possibly as a measure to be applied to forests destructively exploited without provision for restocking. Only two states, Arkansas and Louisiana, now have severance taxes in addition to the property tax upon forests.

The Minnesota tax on iron ore may properly be regarded as a severance tax. It is levied at 6 per cent on the value of the ore mined, after deducting the reasonable cost of mining, royalties, and an apportionment of the property taxes levied on all unmined ore. All known deposits of ore are assessed at 50 per cent of their true value, which is ascertained by computing the present worth. Under this procedure, the value of a ton of ore in the ground, from which it may not be taken until 1950 or 1960, is necessarily small. Once above ground, ready for shipment to the furnace, its value is definitely greater. The occupation tax, as it is called, is levied on the net increase in value due to the mining process. A companion tax on royalties, at 6 per cent, distributes the burden of the severance tax between the mine operators and the lessors.

Natural resource taxation difficult.—The problem of the proper taxation of natural resources is difficult, and, aside from forests, has never been gone into thoroughly. It may be that an investigation as intensive as that which has recently been completed in the case of forests would lead to a similar conclusion regarding the usefulness of the severance tax on mining, oil, and gas production, and other branches of the extractive industries. It is probably true that a heavy annual tax, such as is imposed under the property tax, based on assessments purporting to include the entire known quantity of the resource still in the ground, is a factor tending to speed up the

¹This error was made in the 1935 edition of *Tax Systems of the World*, p. 140. There the Nevada tax on the net proceeds of mines is listed as a severance tax, whereas it is an adaptation of the property tax to the peculiar conditions of silver mining. The Utah tax on net proceeds is not included, though it is similar. Likewise the forest yield taxes of Oregon, Idaho, and Wisconsin are called severance taxes, but they are actually in lieu of the property tax, and are applicable to only a small part of the entire forest area. The California charge on petroleum and natural gas, at rates to produce \$275,000 annually for the department of natural resources, and the Colorado levy of 4/10 cents per ton of coal, for the support of the bureau of coal mine inspection, are fees rather than taxes.

²F. R. Fairchild, and Associates, *Forest Taxation in the United States* (1935), p. 635, United States Department of Agriculture, Miscellaneous Publication No. 218.

rate of exploitation. The accumulation of each year's taxes against the value of the resource lessens the probable profit margin when it is produced. Hence there is pressure to get it out quickly.

Under these circumstances it is not easy to see how a severance tax, levied on the privilege of extraction in addition to other taxes on the resource as property, promotes conservation. On the other hand the substitution of a yield or production tax for the annual tax on the whole value not extracted, would probably have an influence toward conservation; but so many other factors enter, such as market price, operating costs, the degree to which other areas not subject to the tax might supply the same material, and others, that definite estimates of the effect of the tax are likely to be unreliable.

A COMPARISON OF OIL TAXES—TEXAS, LOUISIANA, AND OKLAHOMA

The following analysis represents a sincere effort to ascertain the actual facts regarding the oil tax question in these three states. Every source of available information, such as the laws, the reports from the tax departments and other official compilations have been utilized. Even the statistics compiled by the oil companies themselves for consumption in those states are reviewed for purposes of comparison.

The general picture is quite different to the one that has usually been painted in Texas. The sources are cited from which the information has been derived and upon which the calculations are based. We let the facts speak for themselves.

G. C. MORRIS,
JOE KEITH,
JOHN BELL,
JACK LANGDON,
T. D. WELLS, JR.,

House of Representatives, Austin, Texas.

Part I. Louisiana and Texas

I. The Gross Production Tax

Louisiana:

The production tax ranges from 4 to 11 cents per barrel according to the grade of oil. (See Louisiana Severance Tax Law as amended by Act 1199, 1936, page 4.) All good grade oil pays, 9, 10 or 11 cents per barrel. The average production tax is as follows:

Barrels of oil produced last year data available (1937) —	88,305,945
Production tax paid —————	\$7,153,450
Average tax per barrel —————	8.12c

(Figures secured from Comptroller of Public Accounts, Revenue Division, Baton Rouge, La.)

Texas:

The production tax is 2¼ per cent for all oil selling in excess of one dollar per barrel. Texas collected last year (1937) \$14,915,833. On a production of approximately five and one-half times as great as that in Louisiana, Texas collected only two times as much in gross production taxes. By the Louisiana rate, Texas would have collected about \$38,000,000 in production taxes alone.

(Note—All comparisons are on basis of data for 1937, since similar comparative information for 1933 is not available at this writing.)

II. The Franchise Tax

Louisiana:

Louisiana assesses a flat franchise tax of \$2.00 per \$1,000 of capitalization on all corporations.

Texas:

The Texas corporation franchise tax graduates downward according to capitalization. It is 60 cents per \$1,000 the first \$1,000,000, and then declines for each additional million of capitalization. In other words, the smaller the corporation, as in small home companies, the higher the rate.

Louisiana collects \$2,837,000 (1935) in corporation franchise taxes compared to \$1,505,494 for Texas, yet Texas has nearly four times the corporate business as Louisiana.

Texas oil paid only \$141,520 in franchise taxes for the production end of the industry. Figures are not available for the total amount paid by Louisiana oil, except that the flat rate of \$2.00 per \$1,000 of capitalization, which is several times the Texas rate.

III. Refinery Tax

Louisiana:

Louisiana pays a refinery tax of 1 cent per barrel of crude oil run through the stills.

Texas:

Texas has no refinery tax.

IV. The Income Tax

Louisiana:

All oil companies in Louisiana pay the state net income tax of 4 per cent on corporate earnings, and with graduated rates on personal incomes.

Texas:

Texas has no income tax.

V. The Property Tax

The property taxes vary from locality to locality within each state and it is impossible to segregate any single industry operating under such a variety of conditions, and with any degree of accuracy ascertain its property tax burden. This cannot be done in either state. In addition to variations in local rates, in Texas, for example, the different classes of property are not properly segregated and approximately 40 per cent of all oil properties in the state are not engaged in production and thus the property taxes on such properties cannot be allocated to *production* tax costs. (Most of the local property taxes are not even reported to the State Comptroller, or to any other authority outside of the local taxing jurisdiction.) Any calculations as to the exact property taxes paid by any phase of the oil industry must, at best, be only wild guesses. The usual method of guessing at the total for all property taxes, and then combining all such taxes of the entire industry, and placing them upon the production end alone, results in giving an exaggerated picture of the oil taxes paid.

Louisiana:

The oil properties are *not* exempt from any state or local property taxes. All lands, wells, rigs, tools, storage tanks and equipment of every kind is assessed on a 100 per cent basis and taxed by the regular rate. While the oil under ground is *not assessed*, the oil wells are evaluated, assessed and taxed. (See instructions to Assessors, Louisiana State Tax Commission (1936), pages 24 to 25. Also the Louisiana Severance Tax Law (1936), Section 2, page 13.)

Texas:

The only tax in Texas against the oil industry that would possibly be higher than the corresponding rate in Louisiana is the property tax. This is due solely to the fact that oil underground, theoretically at least, is assessed for tax purposes, which is not the case in Louisiana. The general over-all property tax rates in Texas, however, are 71 cents per \$100 valuation, compared to \$1.02 in Louisiana. These are Federal Government figures, released by the Bureau of Agricultural Economics (February 18, 1938) on Real Estate Taxation.

The Property Tax Question Appraised

Much stress is laid on the property taxes which oil pays in Texas, since no one knows, nor can anyone find out the actual facts about this situation. The property taxes are not broken down so as to represent the different phases of the industry such as *Production, Pipe Lines, Refining and Marketing*.

Only over-all calculations, therefore, can be made, and the basis for these are the figures supplied by the oil companies themselves.

Before any definite estimates can be reached, it is first necessary to know that part of the oil valuations are devoted to *production* so that a similar proportion of the property taxes can be allocated to production. *The practice of charging all property taxes paid by the entire industry, including pipe lines, refineries and distribution, to production alone, violates all principles of cost accounting and gives a totally erroneous picture of the tax burden paid by the producing end of the industry.*

According to data presented in the *Oil and Gas Journal*, July 30, 1936, page 75, and after allowing refinery valuations also, about 60 per cent of the oil industry in Texas is engaged in production. This means that only 60 per cent of the property taxes can be charged to production.

Although the oil underground in Texas theoretically is assessed and taxed by the ad valorem rates, it should also be noted that the state's discovered oil reserves are conservatively estimated at something between six and ten billion barrels. Since the total assessment of all properties in Texas for the state and county purposes is slightly over three billion dollars, for state purposes, and less than six billion for local purposes, and by far the greater proportion of it being in farm, town, and city real estate, it is at once apparent that only a minor fraction of the underground oil, as a whole, enters into assessment figures, by the producing end of the oil industry in Texas.

The East Texas field, for example, has produced over a billion barrels of oil. Its *annual production*, for example, is of greater value than the entire assessment of the county for state and county tax purposes. (See figures in Texas Almanac.) The same is true for many of the other larger fields.

According to the bulletins published by the *Texas Petroleum Council*, and subsequently by major oil companies, the total property taxes paid by the entire oil industry in Texas are \$15,000,000 local and \$6,000,000 state taxes or a total of \$21,000,000 annually. Since the above figures were released, the state tax rate has been reduced from 77 cents to 49 cents, or approximately 36 per cent. The bulletin published by the Humble Oil and Refining Company, entitled "Texas Through 250,000,000 Years" (1937), Statistical Division, page 31, also gives the total property taxes paid by all *phases* of the industry in Texas at \$21,000,000 annually.

As Shown by the Legislative Tax Survey Report

The Legislative Tax Survey Committee which was authorized by the Forty-second Legislature to make a study of the entire tax situation in Texas in order to ascertain the amount of taxes paid by

the different groups and corporations, reported the following amount of property taxes paid by the oil companies in Texas:

Total ad valorem taxes paid in Texas by oil companies.....\$10,396,937

(See Report, Legislative Survey Committee, page 245.)

While the oil industry has shown tremendous developments since 1932, the property tax rates generally have actually declined about 20 per cent since 1932. It is, therefore, unreasonable to assume that the relative property tax upon the oil industry is no heavier now than then.

Amount of Property Tax as Shown by the Calculations Presented by Oil Companies

Taking as a basis of calculations the amount of present property taxes as shown in the studies and reports of the oil companies themselves (\$21,000,000), we have the following:

Total amount of property taxes.....	\$21,000,000
Amount allocated to production (60%).....	12,600,000
Total production of oil (1937) (barrels).....	510,732,000
(See Mineral Yearbook, U.S. Bureau of Mines, or World Almanac, 1939, page 291.)	
Average property tax per barrel.....	2.47c

On valuation basis (estimated average value of oil at 1.22 cents per barrel) this tax is equivalent to approximately 2 per cent of actual value.

(Note—Oil market values of August, 1938, are used so as to have uniform comparisons with other states.)

Actual Tax Rate Paid by Texas Oil to State and Local Units

By way of summary we have the following tax rates paid by oil producers to state and local governments in Texas:

Oil Production Tax.....	2.75%
Property Taxes	2.00%
<hr/>	
Total per cent of production value.....	4.75%

To this should be added the small franchise tax of \$141,520 annually. The regulatory tax is not included because this is used exclusively in the interests of the oil producers themselves and is not a state revenue for tax purposes.

Compares With Estimates From Oklahoma

The above tax on oil production is approximately the same as shown in the analysis of James A. Veasey, General Counsel for the Carter Oil Company of Tulsa, Oklahoma, in a statement made to a

gathering of oil executives in that city on February 6, 1937, a summary of which was carried in the Oklahoma papers on February 7, 1937, and in the *Dallas Morning News* of the same date. His calculations showed that Texas oil paid total production taxes of 4.10 per cent of value (calculations based on the 2 per cent production tax, 1936). Adding to the 4.10 per cent, the later increase of $\frac{3}{4}$ of 1 per cent, the Veasey calculations would show Texas oil paying a tax of 4.85 per cent on production. This is in contrast to the figures of 7 cents and 9 cents given to the Texas Legislature by the oil spokesmen in 1937, and has since been the basis of press statements in Texas. Other reports in Oklahoma, however, showed the property tax on oil production in Texas to be as low as 1.5 per cent of value.

Less Than Taxes on Necessities Which People Buy

The above figure is somewhat exaggerated, however, since property taxes which are normally paid by all properties, such as those on lands, etc., before oil was discovered, cannot logically be assessed against production. Other property pays taxes for government protection, regardless of production or profits.

The creation of natural resources under the ground, it should be recalled, bears a different relationship to taxation than is the case with ordinary commodities. Oil, in fact, is not produced by man, but was created by nature. Man's work is merely extracting what nature produced tax free. While other commodities are taxed, or bear the incidence of taxation, through production, transportation, processing or manufacturing and finally distribution.

At any rate, it does not exceed the taxes which the state normally collects from farms, or even those that go into the price of actual necessities, which studies show to be about 14 per cent of the price. Ordinarily, rent pays 25 per cent in taxes. (See study, "Indirect Taxation," Northwestern National Life Insurance Company, Minneapolis, Minn.)

Of course the oil industry pays federal taxes also, so do others, especially the consumers as about two-thirds of all federal revenues are normally derived from consumers levies. The cigarette smokers, in Texas, for example, pay about \$14,000,000 annually in federal cigarette taxes, all of which is collected at the factory but passed on to the consumers of the state.

Part II. Oklahoma and Texas

The Oklahoma Situation

In Oklahoma the production tax is 5 per cent of value. The property tax is paid on all "equipment, material or property" . . . "as is actually necessary and being used and in use in the production

of oil, 'natural gas,' etc." . . . (See *Rules and Regulations on Gross Production Tax*, page 11, Oklahoma Tax Commission, Oklahoma City.)

The Franchise Tax (business license tax) is \$1.00 per \$1,000 of capitalization. The oil companies estimate that the oil industry pays 50.61 per cent of the total amount collected by the state from this tax.

A *Net Income Tax* of 6 per cent is collected from all corporations in Oklahoma, which includes all phases of the oil industry. Individuals also pay a personal net income tax. The oil companies pay 41.38 per cent of the state's entire net income tax on corporations. (See Research Bulletin No. 31, Oklahoma State Tax Commission, page 20, 1938.)

What They Say in Oklahoma

Says Texas Property Taxes on Oil Grossly Exaggerated

During the last session of the Oklahoma Legislature, a bill was offered to raise the production tax in that state from 5 to 10 per cent. In fighting the increased levy, the oil companies in that state presented figures to that Legislature revealing that their oil taxes in Oklahoma were already much higher than the Texas rate, and in many instances almost twice as high.

The following press accounts speak for themselves:

"Judging from specific instances, comparing Oklahoma and Texas oil taxes, the chief complaint of oil men is not so much against the Oklahoma gross production tax as against the Oklahoma income tax.

"Thus in figures furnished by Jones-Shelburne, Inc., it was shown that on a specific property in Texas the company in 1936 paid \$808.07. In Oklahoma, for the same production at the same prices, the tax would have been \$936.98.

"But there is no income tax in Texas. In Oklahoma, Jones-Shelburne, Inc., would have had to pay the 6 per cent income tax, amounting to \$749.26. This would bring the total cost in Oklahoma to \$1,688.23. . . .

"If the Mid-Continent Oil and Gas Association of Texas was as wide of the mark in other instances as on its claim of the ad valorem tax paid by Jones-Shelburne, then its declarations that the average ad valorem tax on oil in Texas is 5 per cent was grossly exaggerated.

"The Jones-Shelburne, Inc., figures show an ad valorem payment of only about 1.5 per cent. The Mid-Continent Oil and Gas Association last autumn, in opposing an increase in Texas production, had claimed 5 per cent."—From *Daily Oklahoman*, Oklahoma City, February 3, 1937. R. M. McLintosh, columnist.

"When the information about the yarns in Texas leaked out (referring to the claims of the Mid-Continent Oil and Gas Association before the Texas Legislature) Governor Marland was bombarded by letters from oil men telling him that Oklahoma's taxes were higher than those in Texas.

"Jones-Shelburne, Inc., Oklahoma City Oil Company cited figures showing total taxes on a Texas lease \$808.07 and said the taxes would have been \$938.97 had the well been in Oklahoma." (Before income taxes.) They totaled \$1,688.25 after the income tax was added.

"The Penn Oil Corporation said the total tax on two Texas leases was \$708.74 and it would have been \$846 (before income tax) had the well been in Oklahoma." (Statement in *Oklahoma News*, February 2, 1937.)

Governor Marland's Statement

Referring to an assertion before the Texas Legislature by the Mid-Continent Oil and Gas Association of Texas to the effect that Texas oil pays approximately 7¼ cents per barrel in oil taxes, the Governor said:

"However that is untrue. The average producer in Oklahoma is paying more in *gross production, income*, and other taxes than the average producer in Texas. . . ." (Statement in *Daily Oklahoman*, January 24, 1937.)

The Governor stated: "That Oklahoma producers pay an average of 9.045 cents per barrel on \$1.25 oil." See *Oklahoma Daily News*, February 10, 1937, page 2.)

Statement of John R. Rebold, Independent Oil Operator, before the Oil and Gas Committee of the Oklahoma Legislature:

"The major oil companies are producing twice as much oil in Texas now as in Oklahoma. Naturally they are more concerned about protecting their interests in Texas than in Oklahoma. And if they are going to lie, they are going to lie to the Texas Legislature." He termed as "false and misleading" the statements of the major oil companies to the Texas Legislature to the effect that Texas taxes were higher." (Statement from *The Oklahoma News*, February 17, 1937, page 4.)

Statement of Tom Cheek (Oklahoma City), President of Oklahoma Farmers Union, before the Oil and Gas Committee, February 10, 1937:

"The big oil companies always hide behind the little producer. Apparently the only reason they have for allowing the little producer to exist is to have someone with whom the public can be aroused to sympathize.

"In Texas they plead that taxes are higher than in Oklahoma and Kansas. In Kansas they are higher than they are in Texas, and in Oklahoma they are higher than they are in Kansas and Texas. They play one state against the other and in doing so, the citizens of all three states are suckers."

Statement of Charles Balph, Shawnee Independent Oil Operator, before House Gas and Oil Committee on Hearing on Oil Tax, February 16, 1937:

"I have been in both Texas and Kansas recently," Balph said, "and I have found Oklahoma operators in both states. They get more for their money, in acreage costs, in drilling costs, in production costs, and in lower taxes in these states." Charles Balph, Shawnee Independent Oil Operator, before House Gas and Oil Committee in Hearing on Oil Tax, February 16, 1937. *Oklahoma City Times*, February 16, 1937, page 2.

Texas Oil Costs Lower

"Rebold, Okmulgee stripper oil well association official, told the House Oil and Gas Committee that oil could be produced in Texas at 23 cents a barrel less than in Oklahoma and that many oil men were leaving this state for Texas partly because of higher taxation. The flight to Texas is due partly to higher taxes and partly to lower costs of producing and drilling." Rebold told the Commission considering the Speck bill to increase gross production tax on oil from 5 to 10 per cent."—Statement in *Oklahoma City Times*, February 17, 1937.)

Summary and Conclusions

By way of summary, the have the following comparisons between *Texas* and *Louisiana*:

Nature of Tax	Louisiana	Texas
Production Tax	8:12 cents per barrel (average tax)	2.75 per cent of value
Property Taxes	Regular rates on wells and all operating properties only. Average property tax rate \$1.02 per \$100 valuation.	Regular rates on all oil properties average property tax rate 71 cents per \$100 valuation. Proven oil reserves subject to ad valorem tax rates.
Franchise Tax	\$2.60 per \$1,000 capitalization.	Rates vary from 60 cents down. Total only \$141,520 (1937)*
Income Tax (Corporate)	4 per cent of net income (applies to all phases of oil industry)	None
Income Tax (Personal)	6 per cent	None
Refinery Tax	1 cent per barrel	None

*The bulletin entitled "Taxes on Oil Production in Texas Higher Than Any Other State," by Mid-Continent Oil and Gas Association, page 1, gives the Franchise Tax as \$141,520. A later bulletin by the same Association, entitled "Important Facts about Texas Oil," September, 1937, page 3, gives the amount as \$260,000 annually. This later figure probably applies to the entire oil industry, as appears to be the case with most of the data in this bulletin.

Conclusions

1. The *Louisiana* production tax alone averages 8.12 cents per barrel. This alone is a higher rate of taxation than is paid by the Texas oil industry in all state and local taxes combined. By the Louisiana rate, Texas producers would have paid \$38,212,720 in 1937 as compared to \$14,915,833 actually paid (1937).

2. The other taxes in Louisiana such as the property tax, the \$2.00 franchise tax and the net income tax, cannot be prorated so as to ascertain the portion of each borne by production. It is apparent, however, that the combined portion resting on production could not be less than an additional 3 or 4 cents per barrel average and is probably more. In fact, the general over-all estimate of oil production taxes in Louisiana is 10 per cent of value or an average (1937) of about 12 cents per barrel. On good grade oil it is about that since the production tax alone is 11 cents per barrel.

3. *Texas*: Property taxes paid by oil production in Texas cannot be ascertained with any degree of accuracy because such data to the various taxing jurisdictions are not reported to the state and the tax receipts are not broken down according to the various phases of the industry. Using the oil company figures, which at best are extremely liberal guesses, and allocating the pro rata part to production, gives an average property tax of about 2½ cents per barrel. This would indicate that the total Texas production tax on oil is around 5 per cent of value, according to data based upon the most liberal estimates of the oil spokesmen themselves. This conforms with the calculations made by the Oklahoma authorities which shows the Texas property taxes on oil production to vary from 1.5 per cent to 2.10 per cent of value.

4. The Texas franchise tax is negligible and the state has no net income tax.

5. Louisiana levies a 1 cent per barrel refinery tax which is in itself a tax of sizeable proportions. A similar tax in Texas would run into several million dollars annually from this source alone.

6. In Oklahoma the average annual tax per barrel on oil production is 9.045 cents. (See statement of Governor Marland, *Oklahoma Daily News*, February 10, 1937.) All oil business in that state also pays a \$1.00 per \$1,000 franchise tax and a 6 per cent net income tax, in addition to the regular property taxes on all operating properties. The oil industry in Oklahoma pays 41.38 per cent of the state's entire net income tax from all corporations. (See Bulletin 31, Oklahoma State Tax Commission, page 20, 1938.) The oil industry in Oklahoma also pays approximately 50 per cent of all the franchise taxes in that state. (Oil Company Report.)

7. The propaganda about the excessive taxes on natural resources and foreign corporations in Texas has become the choicest piece of publicity hokum being paraded in this state. The statement of the Mid-Continent Oil and Gas Association in its pamphlet distributed to the Texas Legislature in 1936 stating that the total oil taxes paid in Louisiana averaged only 7 cents per barrel is an example. (See bulletin entitled "Taxes on Oil Production in Texas Higher Than in Any Other State," by Mid-Continent Oil and Gas Association of Texas, page 2.) If they had looked on page 140 of the Fourteenth Biennial Report of the Louisiana Collector of Revenue they could have seen that the severance tax alone in that state averaged 8.2 cents per barrel for the year 1936. This severance tax is not in lieu of other taxes in Louisiana as is claimed on page 2 of the same bulletin. The Louisiana companies pay the regular franchise and net income taxes, as well as ad valorem taxes on all operating properties, which according to all estimates in Louisiana, average an *additional* 3 or 4 cents per barrel.

8. The greatest difference, however, which favors the Texas companies is the fact that Texas has no net income tax. In Oklahoma the oil industry pays 41.38 per cent of the state's entire net income tax on corporations. (See Bulletin 31, Oklahoma Tax Commission, 1938.) This, it should be noted, was the chief complaint of the Oklahoma companies. One can only imagine, for example, what a state net income tax of 6 per cent would take from the pipe lines in Texas, to say nothing of a similar tax on other phases of the industry. The report of the Interstate Commerce Commission entitled "Selected Financial and Operating Statistics from Annual Reports of Pipe Line Companies for Year Ending December 31, 1937," page 3, shows the *net income* of those 58 companies for the year was \$102,798,332. They made \$73,696,236 in clear profits, after charging a sufficient rate of depreciation to recapture the entire original investment, and distributed \$75,896,332 in dividends after charging off for depreciation and every other expense imaginable. To quote Governor Allred's message in 1935, "as pointed out above, the net profit of twenty pipe line companies is more than \$78,000,000 an average of 25 per cent profit in one year on their investment. At the same time, these companies altogether pay the state the munificent sum of \$10,030.79 in one-fifth of a franchise tax."

9. The relative tax burden on foreign-owned corporations operating in Texas has also been grossly exaggerated. In fact, the state today is considered a tax paradise for corporations and wealthy interests. The state has no income tax, which is used by every other southern state except Florida. Its corporation franchise taxes

are among the lowest in the Union, and amount to virtually nothing on foreign corporations operating here. Our property taxes are fourth from the lowest in the Union and only one other southern state, Virginia, are they slightly lower. (See Federal Bureau of Agricultural Economics, 1937 report.) Even the wealthy living here, in addition to escaping a state income tax, also enjoy the community property law in paying the Federal tax. This advantage alone, according to estimates of the Internal Revenue Division, saves the individuals living in Texas over \$12,000,000 annually in personal income taxes. The state, too, is a rich man's paradise. In Oklahoma the personal income tax is 9 per cent.

Corporation taxes in Texas today are lower than in any other southern state and such facts can be verified by anyone interested in looking them up. With no net income tax, and with the negligible franchise tax, and with no corporation license tax, and with property tax rates fourth from the lowest in the Union the State of Texas is one of the most favorable states toward foreign corporations operating within its borders, and particularly those engaged in withdrawing its natural resources.

Part III. Supplement

State Against State

(Editorial)

"There still is some uncertainty about the solution for the tax problems of Oklahoma and Texas, but, before the controversy ends, the people are bound to realize how the oil interests are evading taxes by playing one state against another. The pleas of the petroleum magnates will have less weight as frequent repetitions of their conflicting claims become impressed on the public mind. In fact, by this time, all should know that the oil men are guilty of misrepresentation in Austin or Oklahoma City, and probably in both to some extent. They will thus be more thoroughly convinced that the oil industry is trying to escape paying its proper share of the cost of government.

"Moreover, anyone with an inquiring turn of mind is fairly sure to learn that both Oklahoma and Texas are taxing oil and gas at a much lower rate than other states apply to production of exhaustible natural resources. With Minnesota taxing iron one production 23 per cent, its mines are busy and its lake ports thriving. That should be the answer to the governor's partiality and the timidity of the Legislature. The people of Oklahoma have voted in favor of a higher tax on mineral production, and that higher levy will be voted if the legislators believe in majority rule."—From editorial in *The Oklahoma News*, Oklahoma City, February 10, 1937.)

Oil and Iron

(Editorial)

"Oil is as essential in our complex civilization as iron. Both are necessities. It is also true that both are exhaustible resources, no matter how abundant they may appear at this time. Yet Minnesota, big in iron industry as Oklahoma and Texas are in oil, collects a tax on iron ore that makes our own gross production tax seem paltry. Yet the mines are operating profitably, the ore docks at Duluth are busy places, and still the industry continues to thrive. A fair tax on the production of mineral wealth must be taken as it is produced, or definitely lost. The tax burden of Oklahoma will be more equitably distributed when the oil and gas industries pay a fairer share. The people should be aroused to the possibilities of such an adjustment. If the Legislature hesitates, the people themselves can make the desired revision by initiated petitions."—Editorial, *The Oklahoma News*.

Resolution No. 8

Oklahoma City, January 19, 1938

Whereas, under our present system of taxation the property of our people will soon be destroyed, and our sources of taxation dried up, compelling the elimination of old age pensions and public school aid; and,

Whereas, the present gross production tax of 5 per cent on oil and gas, and three-fourths of one per cent on other minerals produced \$14,313,668.66 in 1937; and,

Whereas, an increase of this gross production tax of 20 per cent on oil and gas, and a corresponding increase on other minerals, will raise \$57,254,674.64 for 1938, which with the present income tax of \$7,093,072.77 will amount to \$64,347,747.41; and,

Whereas, such an increase in this tax will hurt no citizen, and will increase production of these minerals; and,

Whereas, such an increase in this tax will eliminate our sales tax upon the poor, gasoline tax, car tag tax, and nuisance taxes, and provide money to build roads, have full school terms, pay our teachers a living salary, and provide *old age security* for blind and dependent children and for our old people in keeping with American citizenship, and pay them \$30 per month as the people voted in 1936; and,

Whereas, such an increase in this tax will discontinue our present system of placing farmers and the average business men and women deeper in "the hole" when they make no profit on their farms and businesses; therefore, be it

Resolved, That we recommend the adoption of this resolution, and demand that the next state administration and Legislature increase the gross production tax in conformity to its resolution. Carried. *Passed unanimously by Oklahoma Farmers Union, representing a membership of 50,000 farmers, in annual convention, Oklahoma City, Oklahoma, January, 1938.*

Severance Taxes on Production of Oil in Louisiana

Following figures from tabulation in chart, page 140, of Fourteenth Annual Report, *Collector of Internal Revenue*, Baton Rouge, La., severance taxes only are included. Other taxes such as property, franchise, income, etc., are omitted.

Average Tax in Cents Per Barrel Per Quarter

September, 1928	061
September, 1929	061
September, 1930	064
September, 1931	067
September, 1932	064
September, 1933	070
September, 1934	067
September, 1935	071
September, 1936	082
September, 1937	082

One Hundred Million in Taxes Lost as Oil Men Pit State Against State

"Every time an oil company brings a dollar barrel of oil to the top of the ground in Oklahoma it gives the State of Oklahoma a nickel in tax.

"Every time that or another oil company brings a dollar barrel of oil to the top of the ground in Texas it gives the State of Texas 2 cents in tax (1936).

"Remember these amounts—a nickel in Oklahoma and 2 cents in Texas. They are the basic per-barrel taxes assessed against the ten-billion-dollar oil industry of the two states.

"Remember them because they are about the only part of the complicated subject of oil taxation that is clear. Remember them because they are the cornerstone on which the ten-billion-dollar oil industry has piled an intricate and almost impenetrable mass of taxation misinformation.

"It is misinformation that confuses and deceives laymen, legislators, governors—even oil men themselves.

"Its purpose, its greatest purpose, is this:

"To play the government of Oklahoma against the government of Texas and escape millions upon millions of dollars worth of taxes upon a great natural resource.

"The oil industry, grown so huge and so powerful that one sometimes suspects it is the government of the two states, has been

doing this successfully for years, of course. At least a hundred million dollars of equitable taxes have been lost forever.

"No, that figure is not a wild stab in the dark. If Oklahoma and Texas oil were taxed at the same rate as Minnesota taxes its iron ore, a hundred million dollars would be a conservative figure.

"Today the oil industry is playing the states against each other harder than ever before. In both states the demand for higher taxes is growing steadily louder, for the states are becoming more and more aware that their billions of oil reserves will some day be gone forever.

"This higher tax demand has crystallized in the special session now on in Texas, and will crystallize in Oklahoma when the Legislature meets in January.

"Western Oklahoma legislators, their constituents ridden ragged by the sales tax formed a bloc in August to increase the Oklahoma oil tax. And from a hundred throats in the oil industry came the familiar old cry:

"Oklahoma already has a heavier oil tax than Texas. Texas oil will get our market if you raise the tax. You'll ruin us!"

"It's a good argument. It has worked before. But look what was happening in Texas at the same time! . . ."—Dick Pearce, in *Oklahoma News*.

TAX POLICIES FOR TEXAS

(From the Message of Governor James V. Allred to the Forty-fourth Texas Legislature, January, 1935)

. . . In determining how revenue should be raised for support of the State Government, we must proceed along one or two theories: either adequate revenue must be raised to pay the deficit and meet current operations of the State without serious thought to the source of collection; or a system of taxation should be worked out that will be fair to those called upon to discharge the State's economic responsibilities. Personally, I cannot subscribe to a tax plan which, although it guarantees revenue, at the same time offers patent inequities or unfairness. I believe the Governor and the Legislature should first consider *how* the tax revenues of the State are to be raised rather than how much we are going to raise. . . .

Petroleum tax.—Texas now produces almost half of the crude petroleum output in the United States. This production represents not only a major industry in the State, but the chief natural resource as well. The *Oil and Gas Journal* reflects that for the twelve months period ending August 31, 1935, Texas produced 41.94 per cent of the crude petroleum produced in the United States; Oklahoma produced 29.21 per cent, and California produced 19.65 per

cent. These three States produced 81.88 per cent of the total crude petroleum produced in the United States. . . .

The report of the Comptroller further shows that the gasoline tax in Texas yielded \$33,879,648 for the fiscal year ending August 31, 1934. This figure represents the tax on the total gasoline consumed in the State, as the law provides that the tax be paid on all gasoline at the time of the sale. Since the State gasoline tax is four cents per gallon, the total amount collected represents a tax paid on 846,991,218 gallons of gasoline consumed in Texas. Since it may be assumed that the consumption of other petroleum products is in the same ratio of gasoline, then approximately 15 per cent of all other products from petroleum are consumed within the State. Using therefore a gasoline yield of 15 gallons of gasoline per barrel of crude oil, the citizens of Texas consumed only 15.48 per cent of the crude petroleum produced by the State of Texas. If the gasoline yield be 16 gallons, then Texas consumed only 14.51 per cent of the total crude oil production.

In other words, approximately 85 per cent of the crude oil of Texas is consumed beyond the boundaries of the State. Our citizens pay a gasoline tax of four cents per gallon on every sale within the State; yet purchasers of gasoline in other States and in other countries secure the same gasoline without paying any tax at all to Texas where these irreplaceable natural resources are found.

I recommend that this Legislature make a careful investigation into the present tax on crude oil with the view of equalizing the tax burdens borne by various natural resources of Texas. In levying a tax against crude oil, I believe this Legislature should consider the fact that it is subject to depletion and that eventually it will be taken forever from Texas soil. They should consider further the fact that the oil industry is a money-making industry even in the midst of these dark days of economic depression. The Legislature should consider the fact that about 85 per cent of oil produced in Texas is used outside Texas borders.

We all know it is impossible to shift a severance tax on oil 100 per cent to the consumers of Texas oil in other States, but it can be shifted to a great extent, and this fact should have the consideration of the Legislature. I believe that oil, sulphur, and all other natural resources should bear a relatively high part of the State's financial upkeep and that the tax on any particular natural resource should be equalized from a comparative standpoint with the tax levied on all other natural resources. It is impossible to undertake this problem of equalization without a sweeping and careful investigation, and I urge upon the Legislature such an investigation, detailed and careful enough that it will ascertain the facts.

Natural gas.—Second most important to the natural resources of this State is natural gas. Located in the Texas Panhandle field alone is the largest single natural gas deposit in the world. For more than 125 miles gas deposits, ranging from 15 to 35 miles in width, stand ready for development. At the present time this gas is largely blown into the air. While it is not possible to know the exact gas production in Texas, it has been estimated that last year there were produced more than seven hundred billion cubic feet. Of this, more than three hundred billion cubic feet were blown into the air and forever lost to the use of man.

The total tax paid the State on this tremendous production was the miserable sum of \$228,956, which included the gasoline tax paid on casinghead gasoline made by stripping the natural gas. The present tax is two per cent of the average value of gas produced and sold within the State.

I recommend a flat tax on natural gas of one cent per thousand cubic feet. This should be a severance tax levied and collected from the lessee or purchaser of natural gas.

At present there are many outstanding contracts in the Texas Panhandle secured by major gas producing companies when the Panhandle field was undeveloped and when, therefore, the contract price was extremely low. The average value, therefore, is merely nominal in most instances; and two per cent of that average value, as the preceding figures reflect, produces comparatively no revenue at all to the State.

Perhaps the most lamentable feature, aside from the waste of our natural resources discussed in a recent message to the Legislature, is the fact that a large part of remaining gas is transported by pipe lines to other States and distant cities—tax free so far as Texas is concerned. We should not permit these great natural resources to be drained from under Texas soil and sold outside its borders without receiving some compensation, representing at least a minute part of the value of the product.

Statistics are not available to reflect the amount of the gas used in Texas. Suffice to say, the great majority of Texas gas is used outside our borders, and, therefore, a severance tax assessed against the lessees will largely reflect a payment into the State Treasury by those using natural gas in other States.

Under present production we would realize about \$7,500,000 annually from a tax of one cent per thousand cubic feet. If such a levy is made, and this waste is prevented, production will likely fall; but, in my judgment, a one cent tax would still produce in excess of \$4,000,000 annually. Of this amount, less than one-sixth will be paid by the citizens of Texas, and approximately five-sixths by those residing outside the State.

Sulphur and other natural resources taxes.—In this connection, I also recommend an increased tax on all other natural resources of the State, with particular emphasis on the sulphur trust. Texas produces such an overwhelming part of the world's supply of sulphur that two companies have a virtual monopoly on its production. We may ultimately expect these sulphur domes to become exhausted, and it is just as wrong to permit the exploitation of our sulphur deposits without substantial contribution not only to carry on the government, but for the education of our children as well, as it is to stand idly by and see our natural gas either blown into the air or transported to other States.

There is no doubt that the large sulphur companies operating in Texas have paid themselves out many times over. Their profits have been stupendous. There is likewise no doubt that in the past they have not contributed anything like their fair share to the support of either State or local government.

Several bills are now pending before you proposing to increase the tax on sulphur. In my opinion, the increase should not be nominal, but substantial.

Tax on pipe lines.—In discussing with this Legislature last week the causes of the shameful waste of natural gas in the Panhandle fields, I pointed out the shocking evil in our corporate existence of giant integrated concerns engaged in the production, transportation, and sale of natural gas. This same evil is perhaps more pronounced in the oil business. It has become a matter of common knowledge that the average independent producer, refiner or marketer is waging a one-sided and losing battle against giant integrated concerns authorized by law to produce, refine, transport and market oil and petroleum products. What fair chance does the independent producer of oil have when he must pay a tremendous tariff to transport his oil through the lines of his giant competitors?

This unfair competitive condition was recognized by the entire industry and by the government in the promulgation of the petroleum code adopted under the National Recovery Act. It was provided in this code that each branch of the industry—that is, the producing, the refining, the marketing and the pipe lines department—should stand on its own bottom and operate at a profit in that particular department. This was necessary because undeniably most of the major companies doing business in this State carried on the marketing, refining and, oftentimes, producing ends of their business at a loss, only to more than make up for this loss in unconscionable profits derived from their pipe lines. Shocking figures showing the staggering profits made by these companies are on file with the Railroad Commission of Texas.

In 1934, while operating at a loss in the refining and marketing ends of the business, twenty pipe line companies (owned by their producing, refining and marketing brethren) reported to the Secretary of State a total net profit of more than \$78,000,000. One giant concern made more than \$13,000,000 *net*. Another more than \$8,000,000 *net*.

At present Texas collects an ad valorem tax against these pipe lines; and, in addition, an intangible assets tax and one-fifth of a franchise tax—an extremely limited sum.

As pointed out above, the net profit of twenty pipe line companies is more than \$78,000,000, an *average* of 25 per cent profit in one year upon their investments. At the same time these companies all together pay the State the munificent sum of \$10,030.79 in one-fifth of a franchise tax. If they had the whole five-fifths, it would only have been a total of about \$55,000.

Later on in this message I shall point out the manner in which this one-fifth of a franchise tax was placed on the statute books. For the present I recommend that a franchise tax of one per cent be levied against the gross assets of pipe line companies—both oil and gas—in Texas. Such a tax would yield to the State a million dollars annually on the assets of these twenty oil pipe line companies alone—only 1/78th of their combined *net* profits. Such a tax would, I think, be equitable in view of the tremendous *net* profits earned by these pipe line companies.

Excerpt from

“PLACE OF OIL IN THE TAX STRUCTURE”

By

CAMPBELL OSBORN

(From Proceedings of the National Tax Association, 1935, pp. 121-123)

. . . In studying the kinds of oil taxes paid in the oil-producing states, I arrived at the conclusion that there was no rhyme or reason about the relative rates charged and collected. I have some figures here based on the work of a member of the tax commission of an oil-producing state. I know these figures are reliable, though they may be a few years old. If you take Oklahoma's crude oil tax in 1934 as a base, at 100, you will find that Arkansas would be 237. In other words, their tax was more than twice as high as ours. Texas would be 139, Montana 160, Louisiana 305. Kansas was lower than ours. California was higher. There is not reason for that variation, and it seems to me that some sort of coördination ought to be worked out between the oil-producing states. I do not think it is

reasonable to expect that differences in economic advantages, or costs, or prices, can be absorbed by differences in taxation. That is what the oil men say should be done, but it is impossible. I think, however, that some progress might be made toward coördination of taxation between the oil-producing states.

In studying our tax problem in Oklahoma I came to the conclusion that the gross production tax was not as satisfactory for the state as a severance tax. The reason is that the price of oil fluctuates over too wide a range. I have seen oil in this state sell for \$3.50 per barrel, and I have seen it sell for 30 cents per barrel. I have seen it sell for 15 cents a barrel and for 10 cents per barrel in East Texas, and we have to compete with that oil. Sometimes a change of 50 per cent occurs in six months. In a state where oil is important, we cannot absorb such a variation in the tax base and provide the revenue for government. Therefore, I think the severance tax principle should be applied, and the rate fixed at a given figure, in cents per barrel, regardless of the price of oil.

According to my studies, the trend of mineral taxation is noticeably in the direction of the severance principle. There also seems to be a tendency to increase mineral taxation.

In Minnesota, I notice that iron ore is taxed at 23 per cent. It is not a severance tax, as I understand it, but is a tax based on value. In Colorado, coal is taxed, according to the information I have, at 10 cents per ton; and in Michigan timber is taxed at 10 per cent of the stumpage value. According to the last information I have, New Mexico has a severance tax on oil, of from two to four cents per barrel, and Louisiana recently had a severance tax on oil, of from four to eleven cents per barrel, with an average of ten cents for pipe line oil.

Now I think, also, that gas taxation needs some attention, perhaps more than oil, in some of the states, and particularly in ours. I cannot see any reason why we, a state ranking second or third in gas production in the United States, should receive practically no revenue from the taxation of gas. The gas is paid for to the producer at a cent and a half a thousand cubic feet, or may be two or three cents, when times are good, and much of it is used in the manufacture of gasoline. The volatile products are taken out of it, and a great deal of it is allowed to go up in the air and is wasted. Some of our gas is sold to industries and domestic consumers. The industries pay five or ten cents, sometimes fifteen or eighteen, per thousand cubic feet, and the domestic consumer pays perhaps forty-five, in this state. I know that in some of the other states, that you are doubtless familiar with, the domestic prices are fifty or sixty cents for natural gas. Natural gas is a far superior fuel to artificial gas. It probably has twice the heating

value. It does not seem to me that there is any good reason for the great spread in price between the producer and the consumer, without the state realizing some taxable value. I am told that West Virginia fixes a minimum price on their gas, and that they use that as a tax base.

One more point or two and I am through. I think that we should do something in this state to encourage industrial farming and conservative industry. It is all right to encourage speculation, but we ought not to impose too heavy a tax burden upon conservative industry and too light a burden on speculation. Perhaps that may have been the case in Oklahoma, during the past, and may be the reason for some of our trouble.

There is dire need for the study of taxation in this state. I am in doubt personally about whether the burden is fairly equalized between the farmer and the oil producer. I do not know which bears too much. It is worthy of study by our taxing officials.

There is a great deal of social significance to oil. Once produced, it is gone forever. Millions of years have been required for it to form in the ground. In some of the older states, where the reserves have been largely exhausted, I dare say, there has been built up a fund from taxation during the flush productive period. It seems to me that in Oklahoma and in some of the other states this could yet be done.

I think also that the oil-producing states have given the nation a joy ride at their expense. I know that the production of crude oil as a whole has not been financially profitable. It is too hazardous. Due to certain conditions beyond the scope of my discussion, the price has been kept too low, and the result is that America has bought her gasoline made from crude oil that has been brought to the surface at ruinous costs. Whether or not taxes are increased on crude oil production, I hope that some way will be worked out between the oil-producing states, whereby America will be forced to pay them back, for some of the joy riding it has had at their expense.

WHY CAN'T TEXAS TAX CRUDE OIL?

Extension of Remarks of

HON. W. R. POAGE

of Texas

(In the House of Representatives, Friday, November 3, 1939)

MR. POAGE: Mr. Speaker, the State of Texas produced 39.2 per cent of all the petroleum produced in the United States during the year of 1938, and as the United States produced in the same

year 61.3 per cent of the petroleum of the world, my State accounts for 24 per cent of the entire world's production of this vital mineral.

No natural resource is of greater importance to modern civilization than petroleum. It is the lifeblood which gives movement and vitality to the products of steel. Not only does it make possible the daily use of the automobile and the modern streamlined trains, not only is it vital to our everyday lives and existence of our peaceful civilization, it is equally indispensable to the prosecution of modern warfare. Without gasoline every bomber would be grounded and every tank would be stalled. Oil is essential not only to America but to the world. And that means that Texas oil is essential to the world.

It is little wonder then that a resource of such importance should be a source of relentless intrigue and overreaching. Throughout the old West there was a saying that "Wherever there is gold there is hell." This is likewise true of oil. Not only do we find that wherever there is oil there is the turmoil and violence of the frontier camp—not only is there an ever-present likelihood of personal violence—there is a much more dangerous and far-reaching background. The lawlessness of the boom days is always brought under control by the forces of law and responsible government. The opportunity for the gunman or the gangster is short lived, but the opportunity for those who can shape the forces of government itself are unlimited. The oil industry was the first to fall into monopolistic hands. The Standard Oil was the first of a whole series of trusts that have successively ravaged one after another of the business interests of America. While its manipulations have of late years been less obvious, it cannot be doubted that in all too many instances Standard Oil has exercised an unwarranted influence on legislation in a number of our States. With the discovery of some of the great Texas oil fields, there sprang up a group of independents. For a time these independent oil operators seemed likely to give the trust some real competition, but all too soon the old tactics of ruthless destruction of all competitors had decimated the ranks of the independents. Today the major companies probably control the production of nearly 90 per cent of all oil produced in Texas, and refine approximately the same percentage of all gasoline. The independent operators have been forced in the oil industry, just as in so many other industries, into the marginal fields, and the eastern-owned major companies control not only the bulk of oil production but through their financial ramifications they are heavily interested in, if not in control of, the sulphur and natural-gas production of the State as well. Their community of interest in the field of taxation with the public utilities, the railroads, the insurance

companies, and other large interests of the State and Nation has made it relatively easy for them to protect their properties to a very large degree from the hand of the tax collector, which has been laid so heavily on most of their less influential neighbors.

And it is to this matter of taxation of natural resources that I wish to direct your attention. I have heretofore discussed this problem both here and in Texas. I have discussed it in Texas because I believe, and have long believed, that the resources of my State were being removed and the capital wealth of my State depleted for the enrichment of residents of other jurisdictions without any just return to the sovereignty that made possible these transitory but distinctly profitable operations. I have discussed this problem here because I recognize, as you do, a growing insistence on the part of many for Federal control of the great oil industry. Certainly such action on the part of the Federal Government is to be avoided if possible, and I believe that it is possible if the several States will but awake to their own powers and responsibilities. Most of the States have evidenced a full recognition of responsibility for the control of oil production. I wonder if this could be due to the fact that all major companies have in this instance joined with the independents to keep production control in local hands. In any event, there has been no such energetic and uniform State action in the field of taxation of natural resources.

There was a time when all our Federal taxes came from sources like the tariff and the income tax, which taxes did not directly conflict with State levies, which were then largely confined to ad valorem taxes on tangible property. However, in recent years the Federal Government has expanded its taxing base so as to include many, if not all, of the special taxes—as the gasoline tax and admission taxes. These special taxes have at the same time become more and more important in the scheme of State financing as the ad valorem tax has become less and less productive. Today we have a situation where it seems to me to be apparent that the ad valorem tax must be released to the local agencies of government—cities, counties, and school districts.

This will leave to the States only the special-privilege, severance, and sales taxes. While I do not believe in the sales tax as a just tax policy for any unit of government, it can certainly be more fairly administered as a Federal tax than as a local tax. The income tax is probably the most equitable of all taxes, but this field is already occupied by the Federal Government. Let us, then, divide the field of tax revenue and save the tremendous cost of overlapping and duplicating taxation. Let us leave to the Federal Government the right to collect the tariff and all income and sales taxes, and to the State governments the collection of all other special

taxes, reserving to local governmental agencies the ad valorem revenue. It is much more expensive to require the States to collect \$50,000,000, for instance, from the income tax and an additional \$50,000,000 from gasoline taxes and have the Federal Government duplicate the process as to both taxes than it is to allow the States to collect their full \$100,000,000 from the gasoline tax and the Federal Government to collect its full \$100,000,000 from the income tax. The return to each government is just as great under the last plan as under the first. The burden to the taxpayer is not increased and at least one-half of the cost of collection is saved.

Furthermore, the income tax can be more equitably collected by the Federal Government than by any one or more States. The large incomes of the present day are not ordinarily produced in any one State. They are more likely to be the result of exploitation of the resources of some "raw material" or "colonial" community than to be properly attributable to the locality where they are taxable.

We have developed to an appreciable degree the customary set-up of an economic empire. The fact that we are all living in one contiguous territory has tended to obscure the colonial-empire relationships. Certain great industrial and financial centers have assumed tremendous and, in my opinion, unwarranted importance in the control of the economic life of the outlying communities.

As Dr. R. H. Montgomery, of The University of Texas, has often remarked, "Texas is the largest and incomparably the richest foreign colony owned by Manhattan." We are under the same flag. We exercise certain rights of political citizenship. We are, it is true, tremendously proud of our heritage of independence, of liberty, and of individual opportunity in Texas. But this cannot obscure the further fact that our economic, political and social lives are to a very appreciable extent dominated by our colonial status, just as they are in most of the southern and western states.

It is of little significance that within our State is found by far the world's richest deposits of oil, natural gas, and sulphur. The ownership rights are vested in giant holding companies in the financial centers. The profits flow to these centers. If we are to have a satisfactory and smoothly functioning economic system, money income must be so distributed in the colonies that we may be able to buy the products and services of the industrial and financial centers.

In any great free-trade area, under our traditional economic order, money income tends to flow into the great financial centers from the outlying raw material producing areas. We must devise means for pumping this money back into the colonies if the system is to function. Obviously an income tax levied by the State of

Texas would not touch the tremendous profits of our great natural-resources industries. The properties are in Texas. The cash profits are translated into income in New York and Pittsburgh.

The relationship between the physical properties of corporations engaged in the production of natural resources and the realization of profits therefrom and the problem of determining an equitable basis of taxation thereon when the one is so widely separated from the other in geographical distance is well illustrated by three classic examples from our own State.

Texas has an almost complete monopoly of sulphur. For a decade we produced about 98 per cent of the American supply. In 1938 Texas produced 86 per cent of the total sulphur produced in the United States, or 64.3 per cent of all the sulphur produced in the world. Two companies controlled that production—both, of course, “foreign” owned and managed—both closely related by affinity, if not by consanguinity, not only with each other but each with one, although not the same, giant oil company, and all together exercising a tremendous political influence in Texas; nor have the Texas Co., a Delaware corporation, and Mr. Mellon’s Gulf Co., interested themselves in brimstone simply because the process of production was interesting. It has paid a fair profit.

According to its own books, Texas Gulf Sulphur Co. had invested in its company in Texas—at least, it had common stock outstanding—to the amount of \$6,350,000 in 1921. Entirely aside from the unnumbered millions which have been “plowed in” since that time, the company during the next 16 years paid in cash dividends on that common stock over 100 per cent per year, a total of \$103,952,500, and for one company alone; and in 1938 Texas collected only \$1,766,288.04 from its sulphur tax on all companies.

Texas also owns the world’s greatest reservoirs of natural gas—I should say the world’s greatest reservoirs of natural gas are within the boundaries of Texas. The pieces of paper representing ownership lie in other jurisdictions. In 1938 Texas produced 1,099,678,000,000 (trillion) cubic feet of natural gas, of which 68 per cent is reported to have been used in Texas; but when we consider that a large part of this gas was used in the manufacture of carbon black, which was ultimately sold in the industrial East, we realize that in the final analysis Texas’ citizens and Texas’ industry used relatively little of this great resource. In times past there was far more gas blown into the air in Texas than was produced in any other State, but since the great gas companies came to the conclusion that it would be self-serving to prevent this waste the State has passed conservation laws; but this wealth, as reflected in the profits, still escapes the Texas tax collector, and 137,196,000,000 (billion) cubic feet of natural gas was blown into the air as

waste last year. That is another tragic consequence of the "foreign" ownership and control of the industry.

There are 75 gas-pipe lines serving the industry from Texas. About half of these, all very tiny ones, are more or less owned in Texas. The others handle Texas gas in the interest of the stockholders of Eastern corporations. The 20 largest lines, all foreign owned, handle in the neighborhood of 90 per cent of the total production. The Lone Star Gas Corporation, of Delaware, owns 6 of these and does an annual business of nearly one-third of the total; Electric Bond & Share Corporation of New York, owns 5 and does a little more than one-third of the business. Although the large foreign-owned lines have for years shown tremendous profits ranging well in excess of \$25,000,000 per year, the State of Texas in 1938 collected only \$631,191.97 in gross-receipts taxes from all natural and casinghead gas produced in the entire State.

Gas and sulphur fade into insignificance when compared with the value of the products of the Texas oil fields. Texas produces approximately 40 per cent of the entire output of crude oil in the United States and almost one-fourth, 24 per cent, of the world's total supply. And this in the face of the fact that the actual daily production as of October 1, 1939, was only 2,100,000 barrels, out of a potential daily production of more than 35,000,000 barrels.

Last year the value of Texas oil was more than three times, nearly four times, the value of her cotton crop and I am sure that you all know that Texas is the greatest of all cotton-producing States. The value of our oil at the well—approximately half of a billion dollars—was 60 per cent greater than the total value of all our agricultural products, and Texas ranks first in the Union in the production of agricultural crops. We have over half a million individual farms. Over 2,700,000 people live on those farms. Over a million more live off those farms. The oil industry employs in Texas in all capacities, including the lobby at Austin, only about 200,000 people.

As in the case of natural gas, we have become entirely too efficient in producing oil. We are in danger of being drowned in a veritable flood of it, and we are still paying 18 cents a gallon for gasoline in Texas that sells for 15 cents in Washington, D.C. Of course, we are doing what we can to protect ourselves.

By choking down our flood of oil to a tiny trickle we have increased the price at the well by approximately \$1 per barrel. We are producing 500,000,000 barrels per year. This means that the State of Texas has added around half a billion dollars per year to the income of the owners of these oil wells by governmental action. Would it be unreasonable for the State that created such values to ask the owners to share, say, 10 per cent of their extra values

with the Government that creates and maintains these values? I do not think this is an unfair request; yet back in 1936 when the Texas Legislature—of which I was then a member—increased the tax on crude oil to 2¼ cents per barrel, or to about 2¼ per cent of its value, the oil lobby all shouted “confiscation.” Yet the average farm will pay approximately this much on its value each year, and city property will pay twice that much. I own a little real property in Texas, and I would gladly pay a tax of 10 per cent of its value at one time if I could thereby exempt it from all further taxation for all time to come, and that is just what the oil industry would be doing if it paid four times the production tax it is now paying. Under these circumstances, can it be said that a 10-per-cent tax on the value of crude oil, gas, and sulphur is inequitable? Certainly it is not out of line when compared with the tax bill of the masses of our people.

But the oil industry of Texas is not owned, Mr. Speaker, by the citizens of Texas. It is difficult to get a satisfactory figure on the ownership of oil wells. There are still a number of individual producers in Texas, and some of them are Texans, it is true, but their number is undoubtedly decreasing rapidly. It would not be understating it to say that 90 per cent of all oil-producing properties of our State are owned by citizens of other jurisdictions.

When we consider pipe lines we have more adequate figures. There are 41 common carrier oil pipe lines serving Texas fields, almost all of them foreign-owned. The 18 largest companies handled approximately three-fourths of the total oil run. Yet one of these companies, which alone made a net income of \$8,808,676 in one year, paid, according to the Governor's message to the Texas Legislature, only \$95.77 taxes for the privilege of operating in Texas that year. These companies have been making around 25 per cent yearly return on their investment, but the return is payable as income in Delaware or New York and Texas collected only a few thousand dollars as franchise tax from all of them.

Long ago the industrial States learned the gentle art of passing their taxes on to those communities, such as Texas, which produce raw materials and buy manufactured articles. It is true that those of you who have recently purchased automobiles found in the bill for your car no mention of a tax to the State of Michigan, but it was included in the manufacturer's costs and you paid it nevertheless. For years General Motors, Ford, and Chrysler have been very efficient tax-collecting agencies for the State of Michigan, and the taxes they have collected, while levied by the State against those companies, have been paid by the people of Texas and other “raw-material” States. The tax on automobile manufacturers is but an

example—the same principle is followed by all of the manufacturing States of the world and we pay the bill. Nor can we of the “raw-material” States protect ourselves by the adoption of a like tax, because we do not manufacture any appreciable quantity of world necessities, but we do produce great quantities of indispensable basic natural resources that these same industrial States must have. Nor is there any good reason why the State of Texas should not constitute the exploiters of these resources, tax-collecting agencies for our own State, to collect from the people who finally use these resources a small sum to compensate our State for the loss of these irreplaceable assets.

A man may cultivate a farm for a hundred years, and, though he pays taxes each year, it will, if properly handled, lose none of its value. Not so with oil, gas, or sulphur. When taken from our soil these resources pay taxes in our State only one time, and the State then loses their value and is forever that much poorer. Once removed, these resources move into other States and may enrich New York stockholders, but never again will they contribute to the support of our Texas institutions.

In this connection, it is interesting to note the difference between the farmer and the miner. These two are often carelessly spoken of together as being producer of raw materials or new wealth. It is true that both farmers and miners make new wealth in the form of raw material available to industry, but only the farmer and stockman “produce” new wealth. The farmer creates usable goods, and if he is a good farmer, repeats the process over and over again on the same land. The miner and well driller create nothing that did not already exist in the soil. He merely removes the minerals that God placed there. Neither the oil nor the sulphur drawn off this year can be grown again next year on the same land as could a crop of cotton or corn. The cultivation of our farms adds to the total wealth of the world. The operation of our oil wells but depletes our reserves.

Not all States, Mr. Speaker, have the opportunity to care for their local needs by a reasonable tax on natural resources, as does the State of Texas. A tax of only 10 per cent of the value of oil, gas, and sulphur would at present prices and at the present rate of production, produce well over \$50,000,000 per year. With that amount of money Texas could and should abandon her State ad valorem tax entirely, pay the existing State deficit, and care for a reasonably liberal system of old-age pensions. Everyone familiar with the financial condition of the State knows that some such source of revenue must be found, and if we do not levy a natural-resource tax we will very probably fall victim to a general sales tax, which will take the full amount of the tax levy out of the

channels of trade, which will burden the people least able to pay, reduce the purchasing power and employment, and subject honest Texas dealers to unfair out-of-State and mail-order competition, and involve the State and Federal Governments in additional and needless disputes.

On the other hand, if we collect the money by a natural-resource tax, we will actually bring new money into Texas. A natural-resource tax must obviously either be paid by the producers and be taken out of profits—stockholders' dividends—or it must be added to the cost and passed on to the ultimate consumer of the product. The oil and sulphur companies claim that the stockholders would have to absorb the tax. If this were true—and I do not think anyone believes it is—it must be admitted that most of the stock is owned beyond the borders of the State, and therefore the tax would be paid by foreign stockholders. If, however, the tax is added to the cost of the retail product, as it will undoubtedly be, the final consumer will pay the bill; and where does this consumer live? More than 85 per cent of all Texas oil and probably around 99 per cent of all Texas sulphur is ultimately consumed outside of the State, so even if every dollar of tax is passed on to the ultimate consumer, as it will be, the citizens of Texas will only pay approximately \$5,000,000 of the \$50,000,000 which a 10 per cent natural-resource tax would produce. On the other hand, it would bring in \$45,000,000 of outside money into the State. The tax should be imposed for this reason if for no other.

Let me pause here, Mr. Speaker, to answer the two objections that have undoubtedly already suggested themselves to your mind. They are, of course, first, the question, Will not such a tax result in a loss of markets for Texas oil to oil produced elsewhere, particularly in Oklahoma and California? and, second, Will not such a tax seriously cripple the small or marginal producer? These questions are both pertinent and both deserve a fair answer. Taking the second question first, my answer is that we should probably give the marginal producer an advantage in tax. This was done in the natural-resource tax bill which I introduced in the Texas Senate while a member of that body in the fall of 1936. In that bill I proposed to tax oil produced from marginal wells only 5 per cent of its value, as compared with a general tax of 10 per cent. The term "marginal well" has long been defined by our Texas laws and our courts have upheld the right of the Legislature to classify these wells and to impose different requirements on large and small producers. These marginal wells include all small producers, the maximum production varying with the depth of the well. The tax I proposed would have abolished all State *ad valorem* taxes on all property, including, of course, property used in production, as the well

and the lease, which in some counties of the State exceeds 5 cents of each barrel of oil produced.

The increase in production tax on marginal wells would only be approximately $2\frac{1}{4}$ cents per barrel, so that the small producers would actually get a reduction of net as well as of gross taxation. According to the Railroad Commission of Texas, there were on October 1, 1939, a total of 88,934 oil wells in the State. Of this number, 35,758, or 40.18 per cent, were marginal, and while they were allowed to produce to capacity while some of the other wells were restricted to a small fraction of their potential production, the entire number of marginal wells produced only 125,093 barrels daily in the year of 1938, or 5.9 per cent of the total of the State's production. Therefore we could give these small producers an actual reduction in their taxes and at the same time we would not materially jeopardize the total revenue to the State by extending a 5 per cent rate to the marginal wells. These marginal wells are the ones that are most generally owned locally and are entitled to a preferential treatment in order that they may not be abandoned and the ultimate recovery reduced and laborers thrown out of employment.

The answers to the question of loss of markets merely requires that we consider the location of our oil reserves with reference to the markets of the world. Three States produce more than three-fourths of all of the oil of the United States. They are: Texas, with a production of 39.2 per cent of the Nation's total; Oklahoma, with 14.4 per cent; and California, with 20.6 per cent. There is no other State that could supplant these three in supplying the Nation's need because no other State produces enough oil. Not only does Texas produce more oil than both of her two nearest rivals combined, but our production is so located with reference to the markets of the world that Texas oil can reach these markets more cheaply than oil produced from either of our competitors.

We must bear in mind that the cost of a barrel of oil, when delivered in the markets of the world, either on the Atlantic seaboard or in Europe, includes not only the cost of production—drilling, leases, royalty, and so forth—but it includes as well the transportation charges incurred in getting it to market. There is no difference in production costs in the three States that can be related to State lines. Of course, some wells cost more than others, but this difference in cost exists within each State and not between States.

We must then look at the cost of transportation to determine whether Texas oil could stand a higher tax than it now carries. Mr. Speaker, oil moves, as does any other commodity, most cheaply by deep water, and it is by deep water that Texas oil reaches the

markets of the world. Both Texas and California enjoy the benefits of ocean rates at their very doors or wells. The cost of putting oil to shipside is about the same in the two States, but according to the American Petroleum Institute it has heretofore cost approximately 46 cents per barrel to move a barrel of oil by tanker from the port of Los Angeles to New York, while the same authority quotes the rate from Port Arthur, Texas, to New York at 14 cents. The Department of Commerce advises me that since the outbreak of the European war the shipping charges have increased to around 30 cents per barrel from any Gulf port to New York, and that there is now no movement of oil from Los Angeles. This means, under normal conditions, that Texas oil can be delivered in New York for approximately 32 cents per barrel less than California oil, and that even with a 10-cent tax Texas oil could be sold in New York at 22 cents per barrel less than California oil with no tax.

As to Oklahoma, the difference is equally striking. Oklahoma oil must move through Texas ports, and while it is, of course, true that after reaching the port the cost of transportation to the world markets is the same as that of Texas oil, there is a very decided difference in the cost of putting it to the port. I have in my office the published tariffs of several of the large common-carrier pipeline companies, who operate in both Texas and Oklahoma. These tariffs show that it costs a minimum of 25 cents per barrel pipelines charges to move a barrel of oil from any Oklahoma field to Port Arthur or Houston. There is also a minimum gathering charge of 10 cents per barrel on all Oklahoma oil. To this must be added a tax of 5 cents per barrel now levied and collected by the State of Oklahoma. This makes a total of 40 cents overhead on each barrel of Oklahoma oil before it starts its ocean voyage. On the other hand, these same tariffs show that in the East Texas field, which represents the bulk of Texas production and a fair average of transportation costs in our State, the pipe-line rates are 12½ cents per barrel, plus a 5-cent gathering charge, which, with a 10 cents per barrel tax, would make a total overhead at shipside of only 27½ cents per barrel, or 12½ cents per barrel less than for Oklahoma oil.

The only other American State that can possibly compete with Texas is Louisiana, which only accounts for 7.8 per cent of American production, and, while their freight rates compare favorably with our own—they are now identical—their production is small and they now levy a tax on oil production ranging up to 11 cents per barrel, dependent upon the gravity of the oil, and averaging in excess of 8 cents per barrel. And this tax has not destroyed the oil industry of Louisiana.

Another favorite criticism of the oil lobby to this tax is their long-whiskered plea that "the oil industry pays half the taxes of Texas anyway." In arriving at these figures they take credit for the \$40,000,000 realized from the 4-cent gasoline tax which my State collects, just as most of other States do, and of which every cent is paid by the ultimate consumer. In fact, in their own reports to their stockholders these great oil companies do not claim to pay any gasoline tax, but simply report it as "gasoline taxes collected for States." When this item is eliminated it is readily seen that the great oil industry, which takes so many multiplied millions from Texas, leaves a very meager sum in Texas in the form of taxes. Nor do the financial reports of the companies to their stockholders show that they are paying any great amount of tax to any State. The annual report of Standard Oil Co. of New York—now known as Socony Vacuum Oil Co.—issued to its stockholders in May, 1939, shows that the assets of that giant corporation were last year \$923,428,918.30, but the same report shows that it paid in taxes of all kinds the sum of only \$23,643,001.30, including both Federal and State income and property and miscellaneous taxes, or about 2.5 per cent on the value of its assets. It hardly bears out the claim that the oil companies are overtaxed. Other great oil companies show even smaller taxes paid. The Texas Corporation, which is Texas only in name, shows assets of \$605,360,644.26, and "taxes for the year 1938, excluding State gasoline and Federal excise taxes, were \$13,484,654.44," or 2.2 per cent total tax on the property owned, including all income taxes. The figures for the Gulf Oil Corporation are about the same. I cannot understand, Mr. Speaker, how any citizen of Texas who is paying around 5 per cent of the value of his property in ad valorem taxes can for a moment ever consider the advisability of further burdening himself and his neighbors with a sales tax, while these great foreign-owned corporations are escaping with such an insignificant levy; but we have many unexplainable inconsistencies in our tax system in Texas. It is, however, interesting to note that none of the mistakes of our taxing system have ever been made against the interests of the oil companies. I take it that is a tribute to the ability and industry of the oil lobby that fills the hotels of Austin.

Under our present laws, Mr. Speaker, Texas takes from her own citizens from 30 to 45 times as much in the way of taxes if they consume or use a barrel of Texas oil as the State takes in taxes if the same barrel of oil is used beyond our borders. If the oil is produced in East Texas and shipped to Washington, D.C., in either its crude or refined condition, the State of Texas receives a gross-production tax of approximately 2¾ cents and no more. If, on the other hand, the same oil should be refined in Texas, that barrel will

give labor to Texas citizens and will produce under average conditions 19 gallons of gasoline. If the most modern methods of refining are used, a barrel of oil may produce 29 gallons of gasoline. If the gasoline is sold in Texas by Texas dealers to Texas citizens, the State takes not only the 2¼ cents production tax but a tax of 4 cents per gallon on the gasoline, or a total of from 78¼ cents to \$1.22¼.

The major portion of the value of our Texas resources is the gift of Providence augmented by the action of the State, and only a very small portion of this value can be attributed to the ingenuity or industry of the great corporations which appropriate the profits. A natural resource, or any other commodity, the major portion of which is consumed outside the State, should carry all the tax it can without putting it at a disadvantage in the markets of the world. It does not cost any more to produce a natural resource in Texas than elsewhere; therefore capital invested here can return to the State a large part of the profits accruing from our favorable location and still enjoy greater profits than in other States.

It is trite to say that our present social, economic, and political structure is characterized by continual change. It is self-evident that these changes call for new solutions of old problems. We can defer our thinking on these things for a time, but the responsibility remains. Only real statesmanship can enact adequate legislation. The answer that undoubtedly suggests itself to many minds is "Federal control"—"Federal taxation"—and I must confess that I can see no other possibility if the greatest oil-producing State in the Union is to continue to "break the market" with its tax system and to "undersell" its competitors. Not for long can the oil companies, powerful though they are, continue to play one State against the other and prevent any of the great natural resource producing States from subjecting them to fair tax burdens. If the oil companies persist in their present policy of forcing a sales tax on States like Texas in lieu of a reasonable natural resource tax, they cannot long expect the support of States like Louisiana or even Oklahoma where severance taxes are two or three times as great as in Texas in their fight against Federal control. And with Federal control will come Federal severance taxes.

Mr. Speaker, for years the oil companies have had things very much their own way as far as taxation was concerned in my State, but I believe that I can see the light of a new day in the eastern sky. As that day dawns those exploiters of our natural resources must choose whether they will coöperate with the people of Texas in the support of our State Government, of our schools, of our

aged, or whether they will continue to insist on the special privileges and tax exemptions that they have so long enjoyed, and subject themselves to the rigors of Federal control and taxation which will not enrich our State, but which will leave them poor, indeed. The choice, Mr. Speaker, is with those who have grown great and rich on the resources of my State. I hope that their choice may be one of coöperation with the people who have done so much for them.

MINNESOTA MAKES NATURAL WEALTH MAKE MINNESOTA

*State Takes Nineteen Per Cent of Natural Wealth to Build School
Funds and Aid Government; Industry Prospers
Under Program*

A most excellent tax program on natural resources which *operates* to serve the people at home is that of the State of Minnesota. Iron ore is to that State as oil, gas, and sulphur are to Texas. Political leaders of Minnesota many years ago realized that this natural resource will some day be exhausted, and only ghost towns will stand in place of the present thriving mining cities, such as those where the great deposits are located. Realizing that taxes must be levied while the minerals are still there, the State as early as 1921 began to levy special occupation taxes upon the severance of the ore so as to recapture a part of its value for the State.

The gross production tax in Minnesota is 8 per cent of value, plus a royalty tax and all the property taxes. The companies also pay all State and local ad valorem (property taxes) assessed at 50 per cent of the true market value of all minerals.

In addition the individuals pay the State net income tax upon profits and royalties received from mining these minerals.

Now let us see the taxes on these minerals as revealed by the cold figures from the *Sixteenth Annual Report of the Minnesota Tax Commission* (1938), pages 124-125. (See footnote below).^{*} Here is the situation for the year of the report (1937).

^{*}This report can be secured from *Minnesota Tax Commission*, St. Paul, Minnesota. There is no way to ascertain the property taxes paid on oil production in Texas. For this reason much stress is laid on this phase of the tax question by the propaganda agencies of the oil companies since no one knows nor can anyone find out the actual facts about the question. Most of the local taxing units such as school districts and towns do not report their tax collections to the comptroller, and even if they did the figures are not broken down so as to represent the different phases of the industry such as production, pipe lines, refining and marketing. The practice frequently resorted to of charging all property taxes paid by all phases of the industry, including pipelines, refineries, and distribution, to production alone violates all principles of cost accounting and gives a totally erroneous and exaggerated picture of the tax burden paid by the producing end of the industry, since only about 60% of the oil industry in Texas is engaged in production. (Estimate based on data presented in the *Oil and Gas Journal*, July 30, 1936, page 75, and with refining included.)

Operations (1937)

Number of tons mined subject to tax.....	49,144,995
Value of ore at mouth of mines.....	\$145,685,514

Taxes Collected on Above Ore

(See page 118)

State ad valorem.....	\$ 2,024,419
County ad valorem.....	4,009,528
Local ad valorem.....	11,235,620
Occupation taxes on production (at old 6% rate).....	9,033,930
Royalty tax on production.....	1,305,385
Total	\$27,608,881

What It Means

The meaning of these taxes in terms of the total value of the mineral is shown as follows:

Value at mouth of mine (see page 124).....	\$145,685,514
Total taxes collected (see page 118).....	27,608,881
Per cent of value in taxes.....	19

*Same Tax Rates Applied to Texas Oil Alone Would Bring State
\$81,000,000 Annually in Additional Taxes*

Now let us make some comparisons with Texas. Turn to page 213 of the Texas Almanac and it will show that Texas in the same year (1937) produced 510,318,000 barrels of oil valued at \$594,500,000. Upon this vast amount the State collected only \$15,965,077 in gross production taxes according to the Comptroller's report for that year.

By the Minnesota *production* rate (8 per cent), this figure would have been approximately \$42,000,000. In other words, Texas loses about \$26,000,000 each year in production taxes alone by not having the Minnesota rate.

For the property taxes paid by the Texas companies, one can use only the figures of the oil groups for an estimate. According to the two most reliable sources, these did not exceed \$16,000,000 on production properties. (See explanation in footnote below.) There were no other State and local taxes of any consequence in Texas, since the franchise taxes on the entire industry were only \$260,000, by their own figures.

In short, the total taxes paid in Texas on the protection of properties valued at nearly three billion dollars, together, for the use of the State's authority in maintaining good market prices for the industry, and for removing nearly \$600,000,000 was at most only

about \$31,000,000. In other words, Texas could increase its oil taxes by \$95,000,000 annually, and still not be in excess of what Minnesota takes from its iron ore producers. This, of course, applies to only oil. Texas is also rich in other natural resources, such as gas and sulphur, which also belong to outsiders, and would bring many additional millions to enrich our State if reasonable tax rates were levied upon their production. Such taxes from these sources, bear in mind, would mean that just that much wealth would remain in Texas, whereas over 90 per cent of it now goes to enrich outsiders who have long exploited the State, and if present policies continue, will eventually leave our State further impoverished when such wealth has been depleted.

In other words, *Minnesota makes Minnesota resources make Minnesota*. Of course, the usual cry about driving the business out of the State, or "crippling the industry" and "giving its competitors elsewhere the advantage," resounded throughout the State when the tax increase was proposed. Their lawmakers, however, saw through the old tricks. They knew that profits derived from exhaustible natural resources help a State only to the extent that a portion of such profits remains in the State. They further knew that valuable minerals are going to be mined where such deposits exist, and that there is no such thing as driving a natural resource industry from the State, any more than the ore in Minnesota could be driven to Wisconsin or the oil in Texas to Mississippi or Florida.

Today with Minnesota taxing her minerals 21 per cent of market value, its mines are busy and its lake ports are thriving.

It is true, of course, that much of the ore is becoming exhausted.

It is likewise true that depletion of all the best deposits may some day occur, at which time nothing but ghost cities or drab sleepy towns in the wake of once prosperous centers will occur.

But, in the meantime, Minnesota is storing up some of the wealth by demanding a share of the mineral values to be used for her schools, charity, and other governmental purposes to build up permanent values against the day when these riches have vanished forever.

PROFITS IN SULPHUR

Verbatim Report of T.N.E.C., Vol. II, No. 19, March 14, 1939,
page 428

Profits of Texas Gulf Sulphur Company

DR. MONTGOMERY: Not only has the price of sulphur been held rigid for the past twelve years, the profits of the companies have been quite remarkable. The exhibit just introduced as testimony

from the Texas Gulf Sulphur Company shows the financial results of the operations of that company during the past twenty years.

Table 2 of the exhibit from the Texas Gulf Sulphur Company (referring to Exhibit 388) indicates sales during the past twenty years of \$297,051,729 and a total cost and expense of producing and selling sulphur of \$131,445,939, a net profit on sales of \$165,605,736.

Now it must be remembered that as of December 31, 1938, the company also had in stock 3,289,728 tons of sulphur above ground, the cost of production of which is included in these total costs of production.

If we could assume that the company might stop producing as of December 31, 1938, and sell its stock on hand at the average price of the last twenty years, which was \$18.18 per ton and a sales, general and administrative expense, which, I think would reasonably cover all possible costs of selling its inventory out, of \$1.48 per ton, there would be indicated an additional profit to the company of \$54,938,458 or a total net profit from sales of \$210,761,101.

ACTING CHAIRMAN LUBIN: I am interested in how you came to that conclusion. As I look at Table 2 I find under Net Sales total sales \$16,000,000, selling and general administrative expense of \$1,782,000, which is roughly about 11 per cent. Is that right?

DR. MONTGOMERY: I have not worked out the percentage for any individual year. I have taken the average for the past twenty years.

It will be noted also that this would change Table 3, the 20-year average of column 1, which shows total costs and expenses of producing and selling sulphur as a proportionate part of a one-dollar sale, of 44.25 cents. Under the assumptions just made, that figure would be 38.20.

In column 2—

ACTING CHAIRMAN LUBIN: May I interrupt at that point? I am interested in the methodology. I wonder whether it is really fair in estimating the cost of sales in 1938 to average the cost of sales in twenty years. Shouldn't you really take the cost of sales in 1938 as the basis of assuming what the cost for selling was?

DR. MONTGOMERY: I do not know which would be the better technical advice. In either case the figures I am giving now would not be materially affected.

The net profits on sales under these assumptions just made would be 61.80 per cent of the sales price of sulphur. That would mean that the 20-year average of column 2 to column 1 (column 2 is profits, column 1 is total costs of producing and selling sulphur), which is on our Table 125.9 per cent, would be approximately 162

per cent. In other words, for every \$100 spent by the company during the past twenty years it would have received in return the \$100 plus \$162 net profit from sale.

COLONEL CHANTLAND: Dr. Montgomery, at one point I think you said 62 per cent and I think you meant 62 cents.

DR. MONTGOMERY: Yes, it might be expressed in either way. I was deliberately expressing it as per cent at that point.

Profits of Freeport Company

In reference to the Freeport Sulphur Company Exhibit (referring to Exhibit 389), again Table 2, the company has produced during the past twenty years 10,456,345 tons, and has sold 9,641,002 tons, at an average price of \$18.10 per ton, and an average selling and general administrative expense of \$1.57 per ton.

The company has shown a net profit on sale of \$4.07 per ton, and now has an inventory of sulphur above ground as of December 31, 1938, of 960,785.84 tons.

If this company should stop production as of January 1, 1939, and should sell out its stock of sulphur above ground at its average price of the past twenty years and at the average general selling and administrative expenses of \$1.57 per ton, the net profits on sale would be increased by \$15,881,790. This would indicate a net profit on sales of \$5.27 per ton. But it must be remembered that Freeport Sulphur Company has paid in royalties to the oil companies owning the leases on the mounds from which it is producing, namely, Hoskins Mound, its major producing dome, and one other small one in Louisiana, a total of \$33,191,228.88.

Under the Hoskins agreement the sulphur company leases the mound from Texas Oil Corporation, and between 1922 and 1928 paid to the oil company 50 per cent of its profits on production as royalty, during that time the company recouping its cost of exploration, of building its plant and getting into operation, and 6 per cent on those costs. From 1928 to the present time it has paid over to the oil company 70 per cent of its profits from the production of sulphur.

MR. DAVIS: Dr. Montgomery, have you any explanation as to the ownership of these other salt domes which are supposed to probably cover sulphur deposits?

DR. MONTGOMERY: In the exhibits which have already been submitted there is a complete list of the sulphur, or presumably sulphur-bearing domes that are held at present by each of the companies.

MR. DAVIS: Could you give us some indication of the percentage of the whole number now known which are owned by the present producing sulphur companies?

DR. MONTGOMERY: I couldn't give offhand the exact number, but I believe it is somewhere between 35 and 45.

MR. DAVIS: Out of the 60?

DR. MONTGOMERY: Not out of the 60, Mr. Commissioner, because most of those out of the 60, or a great many of them, have already been abandoned as either not having sulphur or not sulphur in commercial deposits.

MR. DAVIS: In other words, a portion of the 60 domes have already been surveyed or mined sufficiently to ascertain whether they have sulphur in commercial quantities?

DR. MONTGOMERY: Many of them have. I can give you the exact figures on that if you are interested in having them.

COLONEL CHANTLAND: Coming to what the witness is now speaking about, I want to offer a bound volume* furnished by Texas Gulf Sulphur Company in response to our request for certain data, and ask that it be received, but this need not be printed; it is too voluminous, but it should be a part of the record.

DR. MONTGOMERY: I refer to the tab in the volume marked "Properties Dropped, No Production."

DR. MONTGOMERY: That indicates that Texas Gulf Sulphur has drilled and abandoned twenty-six properties.

MR. BLAISDELL: Dr. Montgomery, you referred a moment ago to certain royalties paid. I think it was by Freeport.

DR. MONTGOMERY: By Freeport Sulphur Company.

MR. BLAISDELL: I don't have the exhibit in front of me so to clarify the record I would like to ask, are the royalties which have been paid included in the column "Dividends" paid by the company?

DR. MONTGOMERY: They are not. They are included in the column marked "Cost of Goods Sold." To the sulphur company they are referred to as costs of operation.

(Senator O'Mahoney resumed the Chair.)

DR. MONTGOMERY: Quite obviously if those royalties paid, which may or may not represent true profit to the oil companies receiving them but which certainly represented profits on the books of the sulphur companies, were included in the column on "Net Profit on Sales," the 20-year total net profit on sales would be \$72,386,056.88 instead of the \$39,194,828 indicated in the table.

COLONEL CHANTLAND: As one-half of the net paid to the oil companies?

DR. MONTGOMERY: From 1922 to 1928, since which time 70 per cent of the sulphur company's profits have been paid to the oil company owning the lease on Hoskins Mound and on the Grande Escaille, the Louisiana deposit.

*The bound volume referred to was received in evidence marked Exhibit No. 390, and placed on file.

Of course, again that would materially change Table 3 also, in which represents total costs of producing and selling the sulphur, which represents total costs of producing and selling the sulphur, and in column 2 the amount of one-dollar sale of sulphur represented by net profits to the company.

(Exhibit No. 376)

SULPHUR

Cost of Production Per Ton

T.N.E.C. Record, March 14, 1939, page 443

	Freeport Sulphur Company	Texas Gulf Sulphur Company	Union Sulphur Company
1906			\$7.72 ¹

1917	\$6.15 ²		\$5.71 ²

1927	6.07 ³		
1928	5.71 ³		
1929	5.98 ⁴	5.27 ⁵	
1930	6.79	5.77	
1931	6.17	5.75	
1932	6.15	6.11	
1933	5.64	6.22	
1934	6.51	5.52	
1935	6.23	5.54	
1936	5.77	5.43	
1937	5.93	5.18	
Aver.:			
1929-37	6.13	5.64	

¹Report of The Italian Commission.

²Federal Trade Commission Study, 1917.

³Company's own figures as reported to Moody's Manual.

⁴Figures for 1929 to 1937 are computed by dividing "Inventories" (at cost) as reported to Moody's Manual of Investments by "Total Stock on Hand" as reported to the Federal Trade Commission.

⁵Figures for 1929 to 1937 are computed by dividing "Inventory of Sulphur Above Ground (at cost)" as reported to Moody's Manual of Investments by "Total Inventory" as reported to the Federal Trade Commission.

More than one-fourth of all the petroleum produced in the entire United States to date has been produced by Texas.

For every dollar spent for Texas Government in 1929, the State spent \$1.80 in 1939, or nearly twice as much.

For every 100 barrels of oil produced in Texas during the past five years, the Texas oilman found 193 barrels of new oil reserves.

One-third of all the oil and gas wells drilled in the United States last year were drilled in Texas.

(Exhibit No. 374)

Table 4

SULPHUR

T.N.E.C. Record, March 14, 1939, page 444

	United States Production	United States Shipped	Imports	Exports	Price at Mine
1926	1,890	2,073	.048	577	17.99
1927	2,112	2,073	3	789	18.48
1928	1,982	2,083	5	685	18.00
1929	2,362	2,437	1	855	17.97
1930	2,559	1,990	.029	593	17.98
1931	2,129	1,376	-----	408	18.00
1932	890	1,109	-----	353	18.00
1933	1,406	1,637	5	523	18.00
1934	1,421	1,614	6	507	18.00
1935	1,633	1,635	2	402	18.00
1936	2,016	1,969	.530	547	18.00
1937	2,742	2,467	.398	644	18.00

Texas produced 48 barrels of oil in 1889, compared with 480,000,000 barrels last year, or ten million times as much.

In 1929 the cost of Texas Government was less than \$92,000,000. In 1939 it amounted to more than \$164,000,000.

For every barrel of petroleum produced in Texas last year, 46 cents was paid in wages and salaries to Texas oil workers.

Texas oil workers and Texas farmers and landowners receive over \$403,000,000 a year from the Texas oil industry. This is nearly three-fourths of its total operating expenditures of \$550,000,000.

The annual cost of State Government in Texas has jumped over \$53,000,000 in the past four years.

Texas petroleum production last year represented over three-fourths of the total value of all mineral production of the State.

Eight out of nine wildcat oil and gas tests drilled by Texas oilmen last year were *not* productive of either oil or gas.

Petroleum represents almost one-third the total annual income of Texas. In other states of the Nation, petroleum represents an average of only one-twentieth of the total annual income.

The average depth of oil wells completed in Texas in 1939 was 3,700 feet, compared with 3,000 feet for the entire United States.

Texas farmers and ranchers receive 30 cents in oil lease and royalty payments for each dollar they get for farm crops and livestock.

Value of Texas crude oil at the wells in 1938 exceeded the value of all Texas farm crops and livestock, including government payments, by more than \$127,000,000.

NEGATIVE READING MATERIAL

Excerpt from

"IMPORTANT FACTS ABOUT TEXAS OIL"

Third Edition, February 1939

Published by

Texas Mid-Continent Oil and Gas Association
Kirby Building, Dallas, Texas

People Depend on Oil

The extent to which Texas people are dependent upon the petroleum industry for their livelihood is shown by the fact that 38 per cent of the population of ten Texas cities depend upon oil industry pay rolls.

At least one-sixth of all the people in Texas obtain their livelihood, directly or indirectly, from the petroleum industry. Practically every section of the State shares in the distribution of wealth created by widespread employment in the Texas oil industry and its allied branches.

Persons employed directly by the Texas petroleum industry number 175,000, with an annual pay roll of \$185,000,000. Computed on the basis of four and one-half persons per family, it is seen that nearly 800,000 Texas people are directly dependent upon the petroleum industry for their livelihood. Including allied branches of the industry, such as equipment and supply manufacturing in Texas, the number of persons employed by this one industry aggregate 215,000. It is apparent, therefore, that nearly one million Texas people depend upon this industry for their livelihood.

Employment statistics of the United States Department of Labor show that there has been a steady increase in employment of the petroleum industry since 1932. These figures also show that there has been a reduction in the number of hours worked per week, but at the same time there has been a substantial increase in the average weekly wages paid. In crude oil production, the average hours worked declined from 46 hours in 1932 to 40 hours in 1938. Yet, average wages increased from \$26.80 per week in 1932 to \$33.30 per week in 1938.

These figures are significant in the light of constantly increasing costs of operation in the Texas oil industry. They indicate the extent to which labor costs have been loaded by the necessity of offsetting the reduction in work hours by the employment of additional men. While this situation now confronts all industries, the

facts show that oil employees work shorter hours and receive greater wages per hour than employees in most other industries. In the oil refining industry, for example, weekly wages average \$34.45 for 36 hours of work, while wages in all other manufacturing industries average \$23.92 for 37 hours per week.

During the past four years, hourly wage rates of representative classes of oil field employment in Texas have shown an increase of over 18 per cent.

Excerpt from

PRESIDENT'S ANNUAL ADDRESS

By

CHARLES P. MCGAHA

(20th Annual Convention, Texas Mid-Continent Oil and Gas Association)

. . . Today this Association records its twentieth year of activity serving the Texas oil industry. Twenty years ago, only thirty counties were producing oil. Daily runs, with wells wide open, supplied only 200,000 barrels for the market. We received a price averaging roughly \$2.00 per barrel, the high being \$3.50 per barrel. Taxes were only an incidental factor at that time. They were less than 2 cents per barrel, as compared to 10 cents today. Only 6,900 wells were producing in the State. South Texas, the Corsicana District, North Texas and West Central Texas embraced the thirty counties in production.

During these two decades of oil development the scope of our production has embraced 134 counties. Daily production is seven times as great as then, even under strict control. This curtailed production today represents only a fractional part of the maximum capacity of the 88,000 wells in the State.

A myriad of complex and difficult problems have arisen to be solved. It is to the credit of the men engaged in the oil business that it has been so well done considering the immensity of the job.

Physical and economic problems, however, have occupied our time and energy during these years and the social aspects and the human side of our business has been buried and neglected, until now it has become one of our major problems. The very life and continued existence of our oil business as an independent enterprise is at stake. Laws and regulations, unfriendly and uninformed public officials, an indifferent and uninformed public, often misled by demagogues with deliberate misinformation, arise to plague us.

The growing pains of this young industry have often been publicized in a manner tending to show disunity within our own ranks.

It is true that anxious days have confronted every element in the business many times, but a commonness of purpose, that of making a living and doing our part as good citizens, generally finds this industry in a fraternity of close friendship.

It is of the social aspects of our industry, I would speak for a while. The Texas oil industry is not an animating machine. It is human. It is made up of an aggregation of human beings and its owners are thousands of men and women who have invested their money in the future of the Texas oil industry. Therefore, if we are to enjoy sound public relations and a sympathetic understanding of our many problems, we must put our human side forward.

I think too many people in Texas today look upon the petroleum industry as some sort of a huge octopus operated by remote control rather than as a humanized business conducted by men right here in Texas—in fact in almost every town in Texas.

When the proponents of new tax revenue measures want to impose additional tax burdens upon Texas oil operators they refer to us simply as "oil." A trite statement of those who seek greater tax revenues to meet constantly mounting costs of government is: "Make oil pay the bill—don't saddle any more taxes on the people," when as a matter of fact, "oil people" make up a large part of "the people of Texas."

I wish it were possible today for everyone in the State to see through television this gathering of oil men and hear them discuss their many serious problems. I feel sure everybody would then realize that the Texas oil industry is composed of human beings and not merely a conglomerate mass of "natural resources."

Let us look beyond this gathering of representative oil operators meeting here in Houston today and attempt to visualize the tremendous human forces behind the Texas petroleum industry.

Thousands of individuals and companies are engaged in the production of crude oil and natural gas, the refining of crude oil, the manufacture of natural gasoline, the manufacture of carbon black, the wholesale and retail marketing of petroleum and its products and the manufacture of oil industry equipment and supplies. These combined operations furnish employment that reaches far beyond the direct pay rolls of the industry. Dozens of cities in our State, with all their varied employment, exist solely because of oil and its allied enterprises.

Then there are additional thousands of investors who own royalty interests in oil-producing properties or securities of Texas oil companies. Bankers all over the State hold deeds of trust for borrowed capital required by individuals and companies engaged in the production of oil and gas.

In this connection, I want to mention that our Association has just completed a second survey of Texas bank loans to oil operators, results of which are indicative of the financial circumstances of our industry. Comparative loan figures of Texas' leading banks show that as per well allowables have been reduced the amount of borrowed capital has increased, for example: In 1935 the daily per well allowable in Texas was 20.5 barrels. During this same year Texas bank loans to the industry amounted to \$26,000,000. Today the per well allowable in Texas is about 15 barrels per day, at the same time Texas bank loans to oil operators now aggregate \$68,000,000.

State and Out-of-State loans, credit advanced to oil operators by supply companies, and the funded debt directly chargeable to the Texas oil industry amounts to the stupendous total of \$797,000,000.

Any intelligent analysis of the human aspects of the Texas petroleum industry cannot fail to reveal the fact that a majority of the people living in this State today are in one way or another affected by the fortunes and misfortunes of this principal industry.

The city of Houston is an outstanding example of what the petroleum industry has contributed to the progress and welfare of our State. Because of its strategic location as a refining and shipping center of the oil industry, and as a direct result of the State-wide expansion of the oil and gas business, Houston has in the past ten years shown an increase in population of 70 per cent. A recent authoritative survey made here shows that 263,520 residents of this city depend for their livelihood upon the oil industry and its allied branches. That's 62 per cent of the entire population. Pay rolls of this group aggregate \$190,000,00 a year. There are over 1,300 establishments in this city directly engaged in or affiliated with the petroleum industry.

Three-fourths of all the oil produced in Texas is piped into the Houston area for refining or shipment in intercoastal and foreign trade. As a result, 92 per cent of all the tonnage handled through Port Houston consists of petroleum and its products.

Taxable values in this area created by the industry through its properties, office buildings and homes owned by those engaged in the oil business, aggregate nearly \$127,000,000, and provide an annual tax revenue to local subdivisions of government in excess of \$2,500,000.

The fact that six out of every ten persons you meet on the streets of Houston live here because of the oil business, makes it evident that every commercial establishment in this city owes its welfare and existence in a major degree to this one industry. Similar relationships, although in lesser volume, are shown by analysis of basic facts for many other cities and towns all over the State. Every

sixth person you meet anywhere in Texas depends directly upon the oil business for a livelihood, and the other five look to him for a portion of their living.

When oil prices are at profitable levels and taxes do not retard normal progress of the industry, employment and pay rolls increase. The investors receive a reasonable return on their money and bankers who furnish a substantial share of the working capital constantly required by our industry are able to negotiate loans under conditions which assure a normal turnover.

When oil prices are low and operating costs are forced to excessively high levels by constantly increasing State, local and Federal taxes, the human element behind the petroleum industry, including the boss, the employee, the landowner, the investor, the banker, the farmer and the merchant are adversely affected.

The Texas oil business spends over \$700,000,000 a year in the normal conduct of its operations and at the end of the year seldom has any ready cash at its command. Its potential earnings remain in the ground, an inevitable result because of the nature of the business. This amount of money exerts a tremendous economic effect upon the State and its people. When the wheels of the oil industry turn, wealth is generated and distributed and redistributed all over the State.

When such facts become more fully recognized by all concerned there will be less tendency to increase the tax burden on oil. There should be a more widespread realization by the public and our public officials that the oft-repeated process of unloading the burden of taxation upon oil is after all unloading it upon one-sixth of the State's population, which is contrary to the true concept of our State laws which direct that the cost of government should be equitably distributed among all the people of Texas.

The law of diminishing returns is concretely illustrated by what is happening now in the oil industry: High taxes, low oil prices, constantly rising operation costs and reduced per well allowables have all had a telling effect on the turnover of capital and employment generated by the oil industry. One concrete illustration of this is the recent decline in drilling activity.

Up to September 1, Texas well completions had declined 24 per cent since last year. This means a tremendous drop in drilling expenditures. For the entire year it is probable that our drilling program will show a decline under last year of perhaps \$80,000,000. Reduced drilling and reduced oil production not only result in reduced employment and wage distribution, but they mean curtailment of expenditures for equipment and supplies, reduced leasing activity and diminishing tax revenue to the State and its local subdivisions of government.

Even though our tax rate per barrel of oil produced is at the highest level in the history of Texas oil, being 9.8 cents per barrel, nevertheless, the aggregate tax collections on oil production have actually shown a material decrease compared to collections made when the tax rate was lower.

We have seen many examples of the law of diminishing returns in recent years. We know it is a fact that many States have found themselves collecting less tax revenue on gasoline through the imposition of excessive tax rates than they collected when gasoline taxes were in the lower brackets.

It has been proven time after time that an unreasonable tax on any commodity, whether it is on oil, cigarettes, or washing machines, will retard sales on that commodity and ultimately fail to provide the tax revenue expected by the imposition of such increased levies.

Our own industry in Texas has long been singled out by tax seekers, but I believe that there has of late been a greater awakening to the realization that our industry is already paying more than its equitable share of the cost of Texas government.

I am sure everyone here today agrees that it is high time to begin finding ways and means of lightening the tax burden on all taxpayers.

Likewise, I am sure that everyone in this room subscribes to the contention that greater economy in the operation of our State Government is a vital issue which must be met by a tax conscious public. We need more statesmanlike voters with an economical turn of mind who will figure out how to save instead of spend public funds. We must put a stop to the further pawing of our future.

I wonder how many persons here and all over the State realize that the annual direct tax bill of Texas oil producers alone, not including gasoline taxes paid by the motoring public, nor taxes paid by other branches of our industry, is sufficient to pay the salaries of the 40,000 school teachers of the State, if it were used exclusively for that purpose. All told, the total tax bill of the Texas petroleum industry is more than \$70,000,000 a year excluding gasoline taxes.

How many people in Texas ever stop to consider what the petroleum industry contributes to the cost of educating their children? A recent survey of school taxes paid by our industry in this State shows that our school tax bill alone last year was sufficient to pay for the education of 387,446 school children at an annual average per capita cost of \$55.30.

The Texas petroleum industry is a large customer of the steel, cement, paint, lumber, chemical and motor car industries, as well

as electric power companies and a great many other interrelated businesses.

The transportation of equipment and supplies used by the industry, as well as the shipment of petroleum and its products in interstate and intrastate commerce, comprise a huge annual freight bill, netting a substantial return to Texas railroads. Railroad tonnage statistics published in the 1939 Texas Almanac reveal that the annual tonnage of petroleum and its products carried by Texas railroads is equal to the total tonnage of all farm products handled by the State's carriers. Twenty-one per cent of all railroad tonnage in Texas is represented by petroleum and its products.

Here again the human element becomes an important factor behind the Texas petroleum industry through the economic contribution made to the men and women who obtain their livelihood from the railroad business. And yet, in spite of this fact, Texas railroad employees, through spokesmen in legislative circles, have in the past seen fit to recommend the saddling of increased taxation upon oil. Had they been familiar with the facts and realized the extent to which their own jobs are affected by the revenue from such a large annual tonnage of petroleum and its products, their attitude would have been decidedly more sympathetic.

In the present sound development of the oil business in Texas we are laying the foundation for a great industrial empire. This is evidenced by the continual discovery of underground reserves in excess of our own immediate requirements. Each year these exploratory efforts are rewarded with additional reserves. Still, we hear it said that some day oil will be gone. This I seriously doubt.

Coupled with the continual building of future oil reserves is the constant investment and reinvestment of capital in the construction of pipe lines, refineries, gasoline plants, storage and shipping terminals and vast distributing facilities. Today part of our huge supply of natural gas is being put back into the sands for safe-keeping when future generations will need it. Enormous expenditures are necessary to conserve these resources as we are now doing and the public is only vaguely acquainted with these phases of our business. These operations constitute the bulwark of Texas' march to industrial supremacy.

Our business is peculiarly a Texas enterprise, emblematic of the slogan—"What Texas makes, makes Texas." The men and women behind this great industry have placed their faith in the soundness of Texas government and their belief in the progressiveness of its citizenship. . . .

REPORT OF TAX COMMITTEE

R. B. ANDERSON, Chairman

(At the Twentieth Annual Convention of Texas Mid-Continent Oil and Gas Association, Houston, Texas, October 5-7, 1939)

The fact that the last session of the Texas Legislature did not pass a bill to increase the tax burden on Texas crude oil has led many persons outside our industry to believe that we escaped an increase in taxation this year. This belief is unfounded. Analysis of the industry's tax picture for this year shows an increase of another half cent per barrel, which makes the total tax per barrel now being paid by oil producers of this State average 9.8 cents. The increase in crude oil taxes this year has, of course, been brought about by a higher ad valorem tax rate.

Every year since 1935, official figures taken from State and local tax records have shown an increase in the average tax rate per barrel of crude oil produced in Texas. In 1935, the average tax per barrel was 7.6 cents; in 1936, the tax rate per barrel had increased to 8.1 cents; in 1937, the tax rate jumped to 8.4 cents; in 1938 it had increased to 9.3 cents; and this year your tax rate per barrel averages 9.8 cents.

The industry is aware of the fact that there are persons who are continually advocating higher taxes on oil in Texas. These proponents of higher taxes on oil justify their positions by telling the people of Texas that our industry pays only 2¼ cents per barrel in taxes, while some of the other oil-producing States levy severance taxes which range from 4½ to 11 cents per barrel. They would lead the people to the false conclusion that the Texas oil operators occupy a favored position among the producers of the Nation, and that Texas is not receiving an adequate compensation for the exhaustion of her natural resources. These proponents of higher taxes on oil forget to mention, or wilfully omit to mention the fact that severance taxes levied by some of the other oil-producing States are in lieu of ad valorem taxes on oil in place. They never mention the amount the Texas oil industry pays in such ad valorem taxes, both to the State and its local subdivisions.

Either because they don't know, or don't want to take the trouble to investigate what Texas oil operators actually pay in taxes on crude oil production, or because they would lead the people of this State to erroneous conclusions through only partial information, these proponents of heavier taxes on oil only mention the gross production of 2¼ cents of the oil's value, which when oil sells at \$1.00 per barrel or less, is pegged at 2¼ cents. If they made an honest effort to determine the true facts about the taxes now being paid by Texas oil operators, they would be compelled

to tell the public that our industry pays, in addition to the gross production tax of 2¼ cents per barrel, other direct taxes which average nearly 1 cent and State, county and independent district ad valorem taxes on equipment and oil in place which add another 6 cents per barrel. Then instead of telling the people of Texas that our industry only pays 2¼ cents in taxes per barrel of crude oil produced, they would perforce tell them that the tax on oil in this State is almost 10 cents per barrel.

Investigation of the facts proves that Texas oil operators are now paying the highest tax on oil in the Nation. This is a fact which the industry, particularly, and the public at large in Texas should know and appreciate, because there are those who would tax the oil industry out of Texas by constantly telling the people of this State that this great natural resource is being taken out with little or no public benefit. Some of the statements made over the radio and in public addresses by those who would further penalize and impede the progress and welfare of our industry are not only a misstatement of facts, but a direct challenge to Texas oil operators, to prove with the official figures that they don't know what they are talking about.

It is my confirmed opinion that you oil men of Texas have set idly by too long and permitted such unfounded statements to place your industry in a false light with the general public. I know your Association has performed a constructive service in seeking out and placing before the people of Texas the facts about what the oil industry means to the State, and the tremendous tax burden it already carries. But I believe that it is the obligations of the oil men themselves in Texas, many of whom are regarded among the most substantial and valuable citizens in our state, to personally challenge the many untrue and unfounded statements continually being made about our industry. I believe that the people of Texas want to learn the facts about our industry; I believe that you oil men owe it to the people of Texas, and to your industry to assist them in ascertaining these facts. I believe that you owe it to Texas and to your industry to challenge and refute statements not based upon existing facts, which lead to false conclusions. The majority of our citizens are too intelligent to accept or act upon statements which cannot be supported with the facts, but the source of the facts is the industry to which you belong.

You oil men of Texas have a right to tell the public the truth about what you pay in taxes. You have nothing to hide. You have the facts which speak for themselves. Your Association has spent several years in the detailed study of every phase of taxation which affects your industry. The Association staff at headquarters spends many months each year in examining and analyzing State and local

tax records, as well as obtaining from the oil operators themselves an actual record of the taxes paid by your industry. You know that our industry pays the highest tax rate per barrel of crude oil produced of any oil-producing State in the Nation, and that a substantial share of all the taxes collected by the State and its local subdivisions is already being paid by oil.

There is not any reason, and no justification, for you to sit idly by and let uninformed persons tell the public that you only pay a measly 2¼ cents per barrel. You know from the facts available that the Texas oil industry has spent more money in the development of oil production than it has taken out in returns from the sale of that production. You also know that oil is one of the principal industries of Texas and that a substantial proportion of the State's population depends upon its continued progress and welfare for its sole source of livelihood.

Let us examine the situation of the oil industry's taxes for this year, and see what the oil producers of this State are now paying in taxes. As a result of curtailment, the production of crude oil in this State this year will probably not exceed 460,000,000 barrels. The price of Texas crude oil will average for this year about \$1.00 per barrel. This average price will make the gross production tax per barrel of crude amount to 2¼ cents. This means that Texas will have collected in gross production taxes this year the sum of at least \$12,650,000. In addition, regulatory taxes on this production, at 3/16 of a cent per barrel, will bring a tax revenue of \$860,000.

Other State taxes, including a franchise, gross receipts, State, social security, permits, fees, car and truck licenses, and gasoline taxes paid to the State on cars and trucks used by the Texas oil industry, will aggregate \$2,800,000. This makes a total State tax, exclusive of the State ad valorem tax, which will amount to \$16,875,000. Add to this figure the increased State ad valorem tax which will amount this year to at least \$7,686,000, and you have a grand total of taxes paid to the State alone of \$24,561,000.

This makes the State tax rate per barrel nearly 5½ cents, but that is only one segment of the tax on Texas crude oil. In addition, your Association's figures show that over \$20,000,000 are being paid this year in county and independent districts in ad valorem taxes. This adds another 4½ cents per barrel and brings the total tax rate per barrel on Texas crude oil to approximately 10 cents.

Although the tax on Texas oil is higher this year than it was last year, the State will receive about 2¼ million dollars less in gross production taxes this year than it received last year. This is, of course, due to curtailment of production and low prices for crude.

On the other hand, our ad valorem tax bill this year will show an increase over last year of \$3,600,000. This year the total State and local ad valorem tax bill of your industry will amount to approximately \$28,000,000 as against \$24,400,000 last year. The net result is that you are paying more taxes on less production, and consequently, are receiving a greatly reduced revenue from the sale of your oil. To those who would measure the tax paid by the oil industry in terms of the gross production tax alone, overlooking or omitting to mention the numerous other taxes levied on oil, I would say that fairness requires you to consider what the Texas oil industry pays in school taxes alone. Last year, according to official figures obtained from State and local tax records, the Texas oil industry paid the sum of \$21,425,773 in taxes, which directly supported the public schools of this State. This is one-fourth of all the school revenue obtained through tax levies and State apportionment, and consequently, paid for the education of one-fourth of all the school children of our State.

Analysis of school tax facts for the past year shows that a great many independent school districts in Texas received from 70 to 90 per cent of their tax revenue directly from the oil industry. And, what is more significant, analysis of these figures shows that in every district where oil furnishes the greater share of tax revenue, the cost per pupil is materially higher than the State average. The average per capita cost of operating the public schools of Texas is \$55.30, but in the school districts where oil pays the tax bill, the average cost per capita ranges from \$100 to \$272.

There is one point of particular significance I should like to make in my report at this time, and that is the extent to which local subdivisions of Texas government will ultimately benefit by the conservation of our known underground reserves of oil. Experts estimate that we have over nine billion barrels of oil underground in Texas, which has been proven by exploration thus far. At the present rate of production, this known oil supply is sufficient to last nearly twenty-one years. Accordingly, this nine billion barrels of oil over the next twenty-one years, exclusive of additional reserves which are expected to be ultimately found by continued exploration, will bring a total tax revenue to local taxing agencies, at existing rates, which will amount to more than \$400,000,000. This is exclusive of State ad valorem tax revenue resulting from taxable values assessed upon oil-producing properties.

If you add the amount of State ad valorem taxes levied on oil-producing properties, one-half of which is to be remitted back to the counties under the recently enacted State law, and using the current tax rate, these reserves will produce an additional tax revenue of \$135,000,000. The total ultimate ad valorem tax revenue

accruing to the State and its local subdivisions from present known oil reserves will aggregate at least \$535,000,000.

In this connection, it is interesting to note that the total time indebtedness of all local subdivisions according to the 1938 State Auditor's report, amounted to approximately \$646,000,000. It becomes evident, therefore, that 62 per cent of all local indebtedness is borne by the Texas oil industry.

Remission of State ad valorem taxes to the counties provides the return of one-half of all such taxes collected to the counties, but the money has already been allocated for soil conservation purposes. Obviously, under the provisions of this new tax remission law, local ad valorem taxes will not necessarily be reduced to offset the increase in the State rate which amounts to 57 per cent. The effect of this increase in the State ad valorem tax rate spells an increase in ad valorem taxes on the Texas oil industry of about \$3,500,000.

The beneficial effects of proration to the local subdivisions of Texas government are apparent. Because of the slow rate at which oil is being taken from known reserves, local subdivisions of government are assured of a greater ultimate tax revenue than would be the case if Texas oil fields were permitted to produce all of the oil possible in the shortest space of time, as was the case prior to proration in Texas. In addition to the greater benefits to be received by production under proration schedules, new underground reserves will continue to be built up through State-wide exploratory effort, resulting in constantly increasing benefits to the State, and its political subdivisions.

No tax report on the oil industry in Texas would be complete if it failed to point out what the tax situation means to the operators of stripper wells. As Jake Hamon so aptly expressed it a short time ago, "Stripper wells are the 'old folks' of the Texas oil industry." They are the wells which have passed from a vigorous youth to an age where their usefulness and value to the community are a sound asset which deserves to be highly respected. The stripper wells of Texas produce 30 per cent of the oil, and constitute 59 per cent of all of the wells producing oil in this State today. Outside of the East Texas field three-fourths of all of the wells producing oil in this State today are on the pump.

It is unfortunate that many of these pumping oil wells pay taxes on oil production which are considerably higher than the State average shown by this report. Thousands of pumping wells in Texas today are being operated at costs which exceed the current market price of oil. Stripper well operators all over the State pay taxes on their crude production in excess of 10 cents per barrel. One has only to examine these facts and to observe the numerous abandonments of wells made each year to realize the seriousness of the

situation which confronts the stripper well operators. Already, the future for many of them is a gloomy one, and many operators realize that under existing conditions abandonments must continue and increase. Any addition to the burden which these operators already have might well mean their destruction.

Analysis of tax records in counties where pumping wells are in the majority shows that the average tax per barrel of oil produced is in many instances considerably higher than the State average tax on crude oil. This is due to the fact that the public debts contracted during periods of peak production in oil fields which have since declined to the pumping stage continue to be liquidated through tax levies made upon such oil-producing properties.

A recent report of the Texas Railroad Commission shows that we have a total of nearly fifty-two thousand pumping wells in the State and about thirty-six thousand flowing wells. The average daily production of all producing oil wells in Texas today is about fifteen barrels. The daily production of pumping wells averages about seven barrels, and at least 23,000 of these wells only produce an average of about three barrels a day per well. The extent to which Texas oil operators have had their production curtailed is shown by the fact that the annual production of oil per well in 1935 amounted to 7,487 barrels, while this year the average Texas oil well will produce only about 5,400 barrels. This means a loss of revenue from the average Texas oil well of \$2,600 this year compared with 1935. Meanwhile, the tax rate per barrel of oil produced has increased $2\frac{1}{4}$ cents, and the effect of reduced output has materially increased the unit cost of production. Heavily as this burden falls upon the average well, it falls with even greater weight upon the operators of the stripper wells.

To those who would advocate increased taxes on oil, and increased burdens on the industry, I would point out that the effect of their proposals must necessarily result in the abandonment of many stripper wells which cannot survive increased costs, and which may not survive the present level of costs. And of them I would ask whether they are ready to assume responsibility for the loss of the ultimate oil which must be recovered from these "old folks" of the industry, and the attendant unemployment of those whose livelihood now depends upon the survival of continued operation of stripper wells.

Fundamentally, this report is one which should be of grave concern to all of the oil industry of Texas. It reflects a tax increase in face of what may be a popular opinion that the industry escaped an increase in taxation of crude oil this year. It suggests an important responsibility resting upon you individually, and the industry at large to refute the statements of uninformed proponents of

higher taxes on Texas oil, who would attempt to persuade the public in this State that the industry occupies a favored position among the oil-producing States of the Nation. It is my sincere hope that you accept the obligation of correcting the false impressions resulting from misstatement of facts, and enlighten the people of our State as to the true fact that already the oil operators of Texas are paying the highest tax on oil in the Nation. No more effective weapon could be made available to you for this purpose than the presentation of the facts as they presently exist.

At the same time, this report reflects the tremendous benefits derived by the public at large, from your industry. You educate one-fourth of the school children in Texas. You bear a substantial part of the responsibility for time indebtedness of the State's political subdivisions. You contribute more generously than any other industry to the financing of the general activities of the State Government. And to do these things, you pay the highest oil taxes in the Nation.

In all earnestness, your Tax Committee invites your assistance and active coöperation in presenting the industry's true tax picture to the people of Texas, and in seeking to obtain and maintain such a tax system as will permit the industry to continually progress for the benefit of all Texas.

ADDRESS OF GEORGE H. SHEPPARD, STATE COMPTROLLER

(At the Twentieth Annual Convention of Texas Mid-Continent Oil and Gas Association, Houston, Texas, October 5-7, 1939)

. . . The subject assigned indicates that I am to discuss the relationship between the petroleum industry and the ad valorem tax, State and subdivision. I shall endeavor to show from some of the records in my office how the development of the oil industry in Texas has affected the property values and the ad valorem tax, as well as some other revenues now enjoyed by the State as a result of the development of this great business. I shall not attempt to even estimate the amount of tax paid by the industry.

In studying the tax rolls covering the past nine years, starting with the year 1930, and comparing that year with 1938, I find some very interesting facts. I have chosen the year 1930 for comparison because in that year the assessed valuation of all property reached the highest point in the history of the State. The taxable values for State purposes for the peak year (1930) amounted to \$4,328,202,612. It is reasonable to presume that the values for local purposes were correspondingly high. It is also reasonable to presume that the local values for the years following 1930 decreased and increased in about the same proportion as did the State values and

that the development of the oil industry had the same effect on the local values in oil-producing counties as it did in the State values for those counties.

The sharp decline in values for the years 1931-32 and 1933 reflects clearly the depression years. The homestead exemption which became effective with the 1933 assessment caused an additional 600 million to disappear from the taxable values for State purposes. It will be remembered that during these depression years the ad valorem tax suffered severely from the inability of the taxpayer to meet the payments. At June 30, 1933 (the annual settlement date for tax collectors), the levy for 1932 taxes showed a delinquency of 29.2 per cent. The highest in the history. 1934 and 1935 showed a marked improvement in the collections on both current and delinquent taxes and was the turning point from declining values to a steady increase which continued through the four succeeding years.

There were several obvious reasons for this improvement. One reason was the improvement in conditions generally. Another reason was the opportunity afforded the property owner to refinance through Federal loans. The remission of penalties and interest also encouraged and stimulated the payment of delinquent taxes at that time. All these things helped us to recover from a condition which seemed to threaten a collapse of the ad valorem tax as a State revenue. The catastrophe averted, the ad valorem tax as a part of our tax structure needed something more lasting than a hypodermic of penalty remission. The petroleum industry largely contributed this factor.

It is true that during the years 1930 to 1934 the oil industry was no infant. You were then producing around 300 million barrels of crude oil annually, but it has been since 1934 that your greatest development has come, i.e., measured by barrels produced. New fields have been and are being discovered. Some fields have declined and some have even passed out of the picture, but your total production continued to rise until in 1938 your barrels reached the staggering figure of one-half billion.

If you were not already familiar with the situation you might ask, what has all this to do with ad valorem taxes? A direct effect on the taxable values subject to the ad valorem tax is reflected in a county by county tabulation of the assessed valuations for 1930 and 1938. This tabulation shows 58 counties to have a total increase of 481 millions. The other 196 counties show a decrease of 663 millions. With few exceptions the 58 counties showing increased values are oil-producing counties. If these increases, which have almost offset the decreases over the nine-year period, are to be considered as a direct result of oil development, and I believe they are, then it seems that the industry might be credited with

stabilizing a source of revenue which a few years ago was in jeopardy.

Although my subject deals with the relationship between the petroleum industry and the ad valorem tax, I cannot refrain from making a few general observations.

You should feel proud to be a part of the greatest industry in the greatest State. An industry and a State which do things in a big way. Texas ranks first in the production of mineral oil and natural gas. The output of Texas oil wells accounts for more than 39 per cent of the country's production, and more than 17 per cent of the world's production. The East Texas oil field is the largest in the world. The world's deepest oil well, I understand, is in Upton County. The world's largest known reservoir of natural gas is in the Texas Panhandle. Even men's hearts grow bigger in Texas, it seems. I know some mighty big-hearted ones and if you look around you'll find them among your own associates.

Petroleum has become the leading industry in Texas, providing directly and indirectly a living for approximately one million people. But that it not all this great natural resource has done for Texas. The commercial discovery of oil in Texas came about 1867, but it was not until 1921 that the State imposed a tax on its production. The original tax was fixed at 1½ per cent of the value of the oil and two years later raised to 2 per cent, remaining at that rate until 1933. The development in the East Texas field in 1930 and 1931, with its tremendous amount of production, as you will remember, caused the price of crude oil to drop to about 10 cents per barrel, with the result that the tax as a State revenue became unstable. To meet this situation, in 1933 the rate was changed from 2 per cent on the value to 2 cents per barrel where the price was below \$1.00. In 1936 the Legislature again raised the rate to 2¼ cents per barrel. The revenue from this source amounted in 1938 to 16 millions, to be used 50/50 for the operation of the State Government and the education of Texas children.

Nor is this all that Texas crude oil has done for Texas. The royalty from the oil lands of The University of Texas has poured millions of dollars into their coffers and built for Texas a University that ranks with the leading educational institutions of the world. All this would probably not have been done, or at least not so thoroughly, had it not been for those of your own fraternity who had faith in the industry and the "guts" to do the job.

Referring back to the subject of ad valorem tax. The comparison made between 1930 and 1938 dealt with State and county assessed valuations. Now let us for a few minutes discuss the effect the oil development has had in our local units of government either in direct tax payments or the relief to the property owner through

reduced ad valorem rates. Considering first, direct levies on property which would otherwise not exist. There is not a town or hamlet which does not have at least a filling station. Beginning with the wayside filling station this list of property extends to the city skyscrapers and huge industrial plants, adding millions of dollars in value from which each unit of government exacts its toll. There are comparatively few counties through which some pipe line does not run. In addition to the physical value of these lines, the earning power of intangible assets value must be included for taxation.

Your plants, your pipe lines, your office buildings and even the filling stations must all be manned. Each man must bear his individual part of the burden. Although his individual part is not a burden of the industry, your pay roll makes it possible for him to meet this obligation.

The relief to the property owner through reduced ad valorem tax rates is no less important. In two specific cases within recent years the taxes coming from the petroleum industry have been used directly to lessen the property taxes.

The most direct application was in 1935 when the State ad valorem tax for school purposes was reduced from 35 cents to 20 cents. The main factor in this reduction was the allocation of one-half of the crude oil tax to the available school fund. In 1937 the increased production and increased rate on crude contributed to another plunge in the school tax rate when it dropped to 7 cents. Not only was the property tax rate reduced but the available money in the school fund provided an increase in the per capita apportionment from \$17.50 to \$22. There are 1,500,000 children on the scholastic rolls. This \$4.50 increase in the per capita apportionment meant an additional \$6,750,000 to the public schools. The result has been that most schools have been able to maintain a full nine-months' term and at the same time meet their obligations on their bonded debt. There are other factors to be considered in this achievement but the oil tax contributed largely to it.

Excerpt from

ANNUAL ADDRESS OF C. P. McGAHA

President, Texas Mid-Continent Oil and Gas Association

(Nineteenth Annual Convention Texas Mid-Continent Oil and Gas Association, San Antonio, Texas, October, 1938)

. . . Today Texas is enjoying a marked degree of prosperity, that is, by comparison with other states, Texas is one of the few states where economic conditions are most favorable to the well-being of

its citizens. The people in Texas have money and they are busy building a new industrial empire.

This condition did not occur overnight. It is the result of gradually improving business conditions over a period of many years and particularly the last seven years, at a time when other sections of the Nation have been beset by the rigors of depression and the subsequent relapse, the recession. The other day I saw a squib in the *Louis Allis Messenger* which defined these terms: "When you tighten up your belt, it is a recession. When you have no belt to tighten up, it is a depression. When you have no pants to hold up, it is a panic."

The past seven years, between 1930 and 1937, marked a new cycle which has wrought the greatest and most important change in the economic life of Texas. During this seven-year period oil development and exploitation has spread to every section of the State, creating employment and offsetting reduced incomes from crops and live stock with cash distributed by the oil industry in the form of wages, lease rentals, lease bonuses, and oil and gas royalty payments.

Although oil has been produced commercially in Texas for nearly fifty years, a fact of real significance to everyone living in this State is that over one-half of the five billion barrels produced thus far has been produced within the past seven years. The extent to which oil development within the past seven years has influenced the welfare of Texas and its people is strikingly evidenced by a definite correlation between all basic statistics of the State with the upward trend of oil production during this period. Comparative statistics for this seven-year period show more employment, more automobiles, more bank deposits, more building, more telephones, more utility consumers, increased income tax returns, big increase in population of counties and cities, more expert tonnage moving through Texas ports, more miles of improved highways, more gasoline tax collections and more taxes levied and collected by the State and its local subdivisions of government.

Many people in our State may be surprised to learn that during the past seven years Texas oil producers alone have spent in the State a total of nearly four billion dollars. Last year all branches of the Texas petroleum industry spent \$755,000,000 in developing and producing oil and gas and manufacturing these resources into consumable products. Nearly one-half of all this money was spent for taxes, wages and salaries, and lease and royalty payments. It does not take any stretch of the imagination to realize that expenditures of such proportions directly affect the well-being of every citizen in Texas, whether he is in the oil business or not.

Texas is fortunate in possessing the greatest underground reserves of oil in the world. However, until the commercial possibility of these resources attracted the capital necessary to develop and produce them, they were of no benefit to the State and its people. The oil has always been here, but it took vision, courage and the expenditure of billions of dollars invested by men and women all over the country to bring this great State's industry to its present condition. Senator Morris Sheppard in a brief which he filed before the Committee for Reciprocity Information on trade treaties had this to say about our industry: "The petroleum industry is the most important one in my own State of Texas. The value of oil production in that State exceeds the value of all the crops produced in Texas. It is the most important single item in our economic life."

Encouragement of new capital and the incentive to reinvest returns from invested capital are prime requisites to the success of any State program of industrialization. What has been accomplished within the past seven years by the Texas petroleum industry furnishes a conspicuous example of what may be accomplished by an unoppressive and wisely administered State Government. Yet, as you all know, our industry has been made the target of repeated attempts to tax it out of existence, and had some of the proposals to impose confiscatory taxes on oil and gas been adopted by our State Legislature, Texas could not have attained its present favorable economic position; for without the remarkable expansion that has taken place over the past seven years, as a result of the State wide distribution of billions of oil dollars, Texas would not now be one of the white spots on the Nation's business map.

Official figures show that more money is being put into the Texas petroleum industry than is actually taken out. This is largely due to the fact that the industry is constantly expanding into every section of the State, reinvesting returns from operations and bringing into the State new capital in order to fully develop the productive possibilities of our State. The value of petroleum and its products in Texas last year amounted to about \$750,000,00, but as I have already pointed out, the industry spent at least \$755,000,000 last year in Texas, and most all of this money remained in the State.

Three hundred sixty million dollars of this amount went for wages and salaries, and lease and royalty payments to farmers and landowners. Materials and supplies purchased aggregated \$190,000,000. Taxes reached the staggering total of \$103,000,000, exclusive of the gasoline tax which is paid by motorists; and all other expenses amounted to \$102,000,000.

The benefits of oil development to every section of the State may readily be appreciated in the light of their effect upon taxable values in many of the newer oil-producing counties. In all counties where new development has occurred within the last few years, taxable values have shown tremendous increases.

The oil regulation report published in Austin on October 21 carried the following information on tax values:

"On the basis of partial reports by county tax assessors, collectors, the assessed value of property for State purposes in Texas for 1938 should show an increase of approximately \$50,000,000 over 1937, Comptroller George H. Sheppard reported Friday. Final returns were in from 161 counties. . . . Past experience indicates the average on this number of counties will closely approximate the final average. . . . Because the tabulation by counties shows the increases centered almost wholly in oil-producing counties, the list of the 161 counties is reproduced with this report."

Some of the counties showing the largest increases in tax values over 1937 were as follows: Andrews County, up \$551,349; Crane County, up \$740,896; Duval County, up \$2,761,510; Ector County, up \$5,190,265; Gaines County, up \$3,075,684; Lubbock County, up \$1,289,006; Moore County, up \$1,420,344; Refugio County, up \$2,707,718; Smith County, up \$1,006,327; Wharton County, up \$1,626,145; Winkler County, up \$3,658,899; Yoakum County, up \$2,571,332.

You will immediately recognize these as being counties where there has recently been a lot of oil development.

The list reveals that many counties showed a substantial decrease in tax values in 1938 as compared to 1937. Some of these were: Baylor, Childress, Edwards, Ellis, Erath, Goliad, Hill, Lamar, Leon, Matagorda, Milam, Red River, San Jacinto, San Saba, Williamson, Wilson, Wise, etc. In these last named counties there was very little, if any, oil activity.

The search for oil necessary to the perpetuation of Texas' predominating position as the Nation's principal source of oil supply, has spread over 240 out of the State's 254 counties. Today oil is being produced in 130 counties of the State, while active exploitation work is being carried on in 110 additional counties. Forty-five million acres of land are now under lease for oil and gas development.

The State-wide development of Texas' oil industry has not only been a tremendous economic factor in the past, but it has provided Texas with a future. Today, as the result of this, vast development, Texas holds the key to the world's greatest storehouse of oil with proven underground reserves aggregating well above seven billion barrels, or more than one-half of all the reserves in the

United States, and new discoveries will doubtless increase this amount. The ultimate producing and refining of this oil will mean continued expansion of the Texas petroleum industry, and we may safely anticipate greater expenditures and greater activities in the future.

Obviously, the State and all its tax-levying subdivisions, as well as the citizenship of Texas, will benefit to an increasing degree if the industry's progress is not handicapped by unwise legislation and confiscatory taxation which would destroy the industry's incentive for continued development of this great natural resource.

Important to the State and its people is the fact that a major portion of the output of our oil and gas is processed in Texas for consumption in other parts of the world. Thousands of Texas wage-earners depend for their livelihood upon the extensive processing and refining operations which are carried on every day in every section of the State. Recent figures of the United States Bureau of Mines show that 84 per cent of all the crude oil produced in Texas is processed in Texas. During the past seven years numerous new oil refineries have been built in Texas to refine Texas oil that was formerly shipped out to other States for refining. Natural gasoline plants and carbon black plants process much of the gas that is produced in Texas and these plants also furnish employment to thousands of Texas wage-earners.

The maintenance of higher-than-average wage scales in the Texas petroleum industry is indicative of the desire of its operating managements to promote a high standard of living among its employees. The fact that oil and gas workers are contented is evidenced by the infrequency of labor disputes which continually occur in other industrial fields. Weekly pay-roll statistics compiled by the Bureau of Business Research, University of Texas, showed that wages paid by the oil industry held top rank among all industries in the State. The average weekly wage of those employed in producing and refining divisions in May, 1938, amounted to \$35.11 against \$25.58 per week paid wage-earners in 2,521 Texas establishments in other lines of business.

So much for the part that oil plays in Texas prosperity. Now let us consider some of the problems under which the industry operates.

Some people have the ill-conceived and mistaken idea that everyone in the oil business is rich, and that the oil industry constantly makes a lot of money. This is altogether erroneous and the true facts can be revealed if we weigh some of the conditions under which the industry operates. Costs of labor and equipment have increased very materially in the past two or three years. It is

now necessary to drill constantly deeper and deeper, at an increasingly greater cost to the industry. Every fifth well in Texas last year was a dry hole. All of these things reduce the profit margins to the point where taxes often represent the difference between a profit and a loss. Furthermore, conservation laws which restrict production per well by proration contribute directly to increased unit cost of operation and leave no opportunity to offset high taxes with operating economies.

Dry holes necessarily result in the attempt to discover new reserves. The dry hole bill in Texas up to date has amounted to one billion dollars. Last year's cost was eighty-five million dollars. Since 1889 the industry has drilled 118,818 oil wells in Texas, but the Railroad Commission's figures on October 1, 1938, showed that there were only 83,805 producing oil wells in the State. The difference represents the number of wells which have been abandoned. Matters such as these are seldom, if ever, considered by those who propose higher taxes on oil.

Despite the tremendous volume of oil production, Texas oil wells, due to proration, averaged only 14.5 barrels per day, according to the Texas Railroad Commission report of October 1, 1938. The per well allowable trend is definitely downward, and this will mean constantly diminishing returns to the producers. The hardships of such restriction are apparent to all. This program, however, is essential to conservation. By keeping production down to consumer demand, we are following a wise policy of not trying to produce tomorrow's oil today. Pumping wells, outside of the East Texas field averaged only six barrels daily per well, and 40 per cent of the latter group showed an average of 3.4 barrels per day. Sixty per cent of all producing oil wells in Texas are in the pumping or stripper class. Stripper wells are the backbone of the Texas oil industry since hundreds of communities in every section of the State depend upon their continued operation for a livelihood.

The glamour of big oil strikes, wide open flow, get-rich-quick-in-the-oil-business, are things of the past. These have been replaced by orderly business-like development and proration of oil pools. Instead of rapidly drilling up newly-discovered fields and permitting each well to produce all the oil possible in the shortest space of time, today's oil fields are operated along sound lines of conservation. This greatly lengthens the productive life of the wells, increases the ultimate recovery per well, furnishes gainful employment over a longer period of years and maintains taxable values so that greater tax revenues accrue to the State and its tax-levying subdivisions.

Proration is an economic necessity and our conservation laws are unquestionably an excellent thing for Texas, but from the operators' standpoint they do materially add to operating costs. Formerly in the days of flush operation it was possible to bring in a well, permit it to flow at its maximum capacity and in the course of two or three years abandon it, salvage the equipment and move on to another field. In this manner ad valorem tax values were destroyed early in the history of the field. Today the exact reverse is true. The average well produced under proration will be contributing in taxes to the State and local Governments for the next twenty or thirty years, unless an unbearable tax load forces premature abandonment of the properties. Unfortunately this is now taking place in some of our Texas fields.

Every public school district in Texas and all of the million and a half school children in the State benefit directly from taxes paid by the oil industry. Last year the oil industry contributed in taxes to all Texas public schools the sum of \$17,630,888, equivalent to \$11.27 for every child attending the free schools in the State. In many independent school districts the oil industry contributed from 40 per cent to 90 per cent of all school tax levies.

The oil industry creates a tremendous turnover of capital, running into the millions of dollars each year. This generates prosperity, although the oil business and those engaged in it may not be prosperous. For example, we are frequently compelled to produce and sell oil below the cost of production. Since the recent price cut, much stripper well production is now being sold below cost and any additional price cut would mean that still more wells would come into this category. Regardless of price, however, the oil man always carries on. He is an eternal optimist. He thinks the price of oil will be put up next month or next year. He sincerely believes that there is a pot of gold at the end of the rainbow and he is ever diligent in his search for that rainbow's end.

Few people outside of our industry ever stop to realize that the major portion of the millions spent in oil represents borrowed capital. A partial survey just made by our Association reveals some astounding facts concerning the extent to which borrowed capital enters the Texas oil picture. A canvass of the banks in the larger cities of Texas reveals that loans to oil operators now held by these institutions aggregate \$51,175,000. On top of that, the equipment and supply companies have extended credit to Texas oil operators to the extent of \$25,000,000. Loan figures furnished by some of the larger banking institutions outside of Texas, representing money advanced on Texas oil properties, total \$77,200,000. This makes the huge sum of \$153,375,000 of borrowed capital and credit employed by independent oil operators of Texas. In addition

to this, the proportion of long-term funded indebtedness chargeable directly to the Texas petroleum industry as a whole now amounts to about \$493,000,000. This makes a grand total of \$646,375,000 of borrowed capital now standing against all branches of the Texas petroleum industry. Interest charges on these bank loans and bond issues amount to at least \$30,000,000 a year.

From this it can readily be seen that our properties are developed principally with borrowed money which is made available to the industry on the basis of recoverable oil and our ability to pay out the investment over a reasonable period of time. One of the main considerations, next to the amount of recoverable oil, is the cost of producing the oil and naturally the banker looks at taxes as an important item and when he sees our industry constantly threatened with increased taxes along with restricted production and rising costs of labor and supplies, he sometimes begins to have doubts of our ability to pay. In fact, a common question the banker frequently asks an oil man seeking a loan in Texas today is, "Do you think the next Legislature will put more taxes on oil?"

One of the principal increased operating costs to the industry is occasioned by the obsolescence of refining equipment brought about by continued advancement of chemical science and frequent required changes in specifications of petroleum products. Millions of dollars are spent by the Texas oil industry each year in re-vamping and modernizing its refining facilities. As a result of this, the public is assured of an uninterrupted supply of high-grade motor fuel and other refined products for which it pays less today than ever before, that is, except for State and Federal taxes.

It is interesting to note what we have to pay for gasoline as compared to what they pay for it in Europe: In France, 35 cents a gallon; in England, 35 cents a gallon; in Italy, 49 cents a gallon; in Germany, about 60 cents a gallon.

In the same manner, scientific advancement in drilling and producing equipment means that much of yesterday's equipment is obsolete today. Between 1926 and 1931 the average depth of Texas oil wells was 2,500 feet—today the average depth is 4,000 feet. The maximum depth from which oil is being produced in our State is 10,600 feet. This means that it costs nearly twice as much to drill a well today as it did ten years ago. Likewise, the search for new oil fields today is carried on by technical and scientific methods such as geophysics, etc. These methods are expensive. Last year the Texas industry spent more than ten million dollars in carrying on this type of work.

Although Texas produces more oil than any other State and has more proven oil reserves than any other State, it has, nevertheless, no monopoly on oil. Texas oil operators cannot pass increased tax costs on to the consumer by increasing the price of oil because the price of oil is controlled by the law of supply and demand on a nation-wide basis and Texas oil must sell in competition with oils from other States. We are already paying a higher oil tax than any other State, which means that Texas oil operators must absorb the difference in cost which the tax creates. In order to maintain the State's enviable position in the world's oil markets, it is decidedly necessary that cost factors should at least be no more than those of other competing States. As a concrete illustration of this, the tax on oil in Illinois is less than 2 cents per barrel, whereas in Texas the multiple tax levies on oil amount to 8.4 cents per barrel.

With all the cost items in the oil business fixed at levels which leave little opportunity for economies with which to offset the industry's increased tax load, we have no other alternative than to fight any attempt to saddle more taxes on oil. I have already mentioned the high wage standard prevailing in the oil fields today. In order to protect our employees and to prevent any possibility of lowering these wage standards, we must unite against the imposition of any additional taxes on oil. Every time we spend \$1.00 for wages today we pay out 56 cents in taxes.

Because of our discussion of taxes, we do not want the industry's attitude on taxes to be misunderstood. We do not complain of fair and reasonable taxes. As a good citizen the oil industry recognizes its tax obligation to government and society, and this obligation it willingly meets.

Keeping pace with the march of progress of our State and our industry has been the activity of the Mid-Continent Oil and Gas Association, acting as a service organization to promote and protect the welfare of the oil business and those engaged in it. Our Association engages in no controversial issues. It seeks to solve those problems which are common to all oil men both big and little. Some of these are: taxes, legislation, theft prevention, social security, unemployment insurance laws, workmen's compensation insurance, pollution problems, simplification of reporting to governmental agencies, interpretation of a mass of rules and regulations, acting as a coördinating agency in behalf of the industry and Government and State departments in the interpretation of the great mass of laws and regulations which affect us, and dissemination of this information to the industry. We try to keep the industry reliably informed on all of the above matters which have to do with its economic, social, and financial welfare. . . .

REPORT OF THE TAX COMMITTEE

HAROLD G. NEELY, Chairman

Texas Mid-Continent Gas and Oil Association

(Presented to Nineteenth Annual Convention of The Texas Mid-Continent Oil and Gas Association, San Antonio, Texas, October, 1938)

Needless to say, taxes whichever way you look become a critical subject. Taxing power, unwisely applied, can create most any one of many dire results. In our business in this State, taxes are bearing down until in many instances they have reached the point of complete confiscation. The power to destroy seems as a mild phrase when you are on the paying end of the tax collector's bill.

In numerous counties of Texas today it takes fifty-one days of working interest production to pay annual State and local tax levies against crude oil. The average oil well in Texas paid last year State and local taxes which were equivalent to the market value of thirty days' working interest production. The Federal tax bill, added to home levies, exacted a total equivalent to forty days' working interest production from the average Texas oil well.

Since royalty interest in Texas oil wells takes from forty to fifty days' production of the year's output, it is apparent that taxes constitute an overriding one-eighth royalty. In other words, Texas oil producers must operate their wells eighty days a year—and in some instances 101 days a year—for the tax collector and the royalty owner before they themselves begin to participate in the proceeds of their operations. Furthermore, the oil operator must pay the cost of producing the tax collector's and royalty owner's share of the year's oil production from his wells.

Taxes levied on stripper well properties and production present a serious problem to thousands of independent oil operators in Texas. The alarming fact is that over 20,000 pumping wells in the State paid last year in State and local taxes an average of \$118 while the average net profit left for the stripper well producer amounted to only \$25 a year.

At this time, the Texas oil producer's situation is even further complicated by having to sell his oil at drastically reduced prices. The recent reduction in Texas oil prices, averaging about 17 cents a barrel, represents a loss to our industry of over \$210,000 a day. On an annual basis, the Texas oil industry's income, at today's prices, is reduced by more than 75 million dollars a year. This means that a majority of the State's pumping wells are now being operated at a loss, because it costs more to produce the oil than the present posted prices. In the face of these current conditions,

our industry's tax problems are of grave concern to every oil operator in the State.

With stripper well production in North and West Central Texas now selling at an average of 92 cents per barrel, on which the cost of production, according to Government figures, averages \$1.10 per barrel, last year's meager profit of \$25 becomes a loss of \$187. Wages and equipment costs are unchanged; the royalty owner gets \$32 less; the tax collector's "take" is cut seven dollars; but the oil producer's actual loss is \$212, because he not only loses his \$25 profit but has to dig down in his own pocket for \$187 more to pay \$257 in royalty and taxes.

From the official figures of the Texas Railroad Commission we find that 60 per cent of all producing wells in Texas are on the pump and that when East Texas is excluded 76 per cent of all the remaining wells are pumpers. The analysis of the taxes paid by the operators of these pumping wells in fifteen Texas counties shows that the average tax per barrel from a pumping well is 9½ cents. This compares with an average of 8.4 cents for all flowing and pumping wells in the State today.

Total State and local tax collections on crude oil in 1937 totaled nearly 43 million dollars, representing an increase of 46 per cent over collections made in 1935. Gross production taxes collected from the industry last year show an increase of 111 per cent over 1935. The constant increase in the Texas oil industry's tax load has been accompanied by increases in labor and equipment costs, and these factors have placed oil producers of the State in a precarious position. I am particularly concerned at this time over the effect of high taxes and rising costs of operation upon thousands of independent oil producers in the State who operate pumping or stripper wells.

In other oil-producing States oil taxes are known as severance taxes, which are in lieu of all other tax levies. In Texas, with its multiple taxing agencies, the rate of tax levied on crude oil by the State is not comparable with severance taxes levied elsewhere. The Texas gross production tax of 2¾ per cent of the market value of crude oil today averages about 3.3 cents per barrel. But, this is only one of many taxes levied against Texas oil. In addition, oil operators must pay a regulatory tax, franchise tax, gross receipts tax, and a multitude of local taxes which are levied by counties, cities, independent school districts, road districts, levee districts, water improvement districts, navigation districts, etc. All of these levies combine to make an average tax per barrel of 8.4 cents, the highest average of all oil-producing States. In numerous counties of the State, where ad valorem taxes are extremely high,

oil producers pay as much as 15 cents per barrel in State and local taxes.

During the past thirteen years the cost of Texas' Government has nearly trebled. It cost 51 million dollars to run our State Government back in 1924, while last year's cost was nearly 145 millions. As Government costs have increased the Texas oil business has had to absorb a constantly increasing tax load, with the result that today the petroleum industry is paying 45 per cent of all State taxes, exclusive of the gasoline tax, which is paid by the motoring public. Including the gasoline tax which amounted to 38 million dollars, the Texas petroleum industry and its products pays 64 per cent of all State tax revenues. In addition, it pays one-third of all local ad valorem taxes collected by the many subdivisions of government.

Our studies of official State and county tax records during the past four years have enabled our Association to prove by indisputable facts that the Texas oil industry is paying taxes on oil which are disproportionate with levies prevailing in other oil-producing States. We know, through careful analysis of the tax records, that the oil producers of Texas pay a major share of all tax levies in many oil-producing counties in the State. Our Association studies show that in sixty-eight counties where oil is produced this one industry pays from 40 per cent to 97.6 per cent of the total tax bill of all taxpayers. In these sixty-eight counties oil producers paid last year over 13 million dollars in taxes, out of a grand total of all taxes amounting to 22 million dollars, an average of 58.5 per cent of the total.

In twenty counties of Texas today oil producers are paying above 10 cents and as much as 15 cents a barrel in State and local taxes, although the average production tax for the whole State is 8.4 cents a barrel. It is unfortunately true that a large number of stripper wells are located in some of these high-tax counties, which places a penalty upon many independent oil operators who can least afford to pay such high taxes.

In addition to common school taxes levied by various oil-producing counties, the oil fraternity of the State pays a major share of taxes levied by independent school districts. Our industry's contribution to the public schools of Texas last year amounted to nearly 18 million dollars, or \$11.27 for every child attending the State's free schools. In twenty-nine independent school districts, oil contributed an average of \$96.43 per pupil. In 107 school districts, embracing sixty-four oil-producing counties, this one industry paid from 40 per cent to as much as 91 per cent of all school tax levies.

Each year during the past several years there have been large increases in tax levies of many counties in which oil is produced. Each time these increases have been announced by our State officials oil has been given credit for the gains recorded. Our Association studies show that in nineteen such counties tax values have increased over the past ten years to the extent of nearly 419 million dollars, a gain of 23 per cent. The discovery of oil in East Texas, for example, resulted in an increase in taxable values of 600 per cent; the discovery of oil at Conroe boosted Montgomery County's tax values 500 per cent.

Nearly 17 million dollars was collected by the State in gross production and regulatory taxes, alone, in the fiscal year ending August 31, 1938, according to figures just received from the State Comptroller's office at Austin. This marked another new peak in the oil tax collections and represented a gain over the preceding year of more than a million and a half dollars. Gross production taxes are now more than five times what they were in 1933, when collections were less than three million dollars.

Texas has experienced in the past few years the greatest oil development in its history. This has resulted in record-breaking production to supply a ready world market at improved market prices. It is evident, therefore, that natural economic conditions have automatically provided the State and its local subdivisions of government with greatly increased revenue. Yet, in the face of this favorable trend, our industry was forced to accept an increase of three-fourths of one per cent in the gross production tax levy, late in 1936. In view of what has happened, it is evident that the natural upward trend of tax revenue through increased production and improved market values far outweighed the purposeful effect of the higher tax levy.

No other State receives as much tax revenue from any one industry as Texas receives from its petroleum industry. Nor has any other State a more favorable outlook for the future than Texas has today, with its State-wide oil and gas development extending to the benefit of every citizen and every community within its far-flung borders. Texas has over half of all the known oil reserves in the United States today. To fully develop their productive possibilities implies no let-up in the remarkable expansion which has taken place in the Texas oil business during the past few years.

Obviously, this can only mean that the State and its local subdivisions of government may expect a continued, increasing flow of tax dollars from this source for many more years to come. Yet, if taxing authorities of Texas do not recognize the natural trend of the past few years and the prospective course ahead, they may through misunderstanding and over-anxiousness bring about an

untenable situation. Encouraged, the Texas oil men and companies are destined to show even greater accomplishments than have already been exhibited. Discouragement of its prospective development program through the imposition of any heavier tax burden than is already carried could quickly destroy the tangible benefits now afforded all branches of State and local Government as well as the economic and social benefits to the State's more than six million people.

Unquestionably the oil man and the oil company are paying more than their share in taxes. How this has come about can easily be ascertained. In the first place, the average oil man is always willing to pay just a little bit more than his share and will usually agree to assume the long end of a financial burden. Secondly, the oil fraternity lacks the strength of organized voting. We are a minority group. Third, it is generally true that the individual operator shows a lack of interest and coöperation. His is the usual phrase of "let George do it" but George can only do so much. The individual operator must, if he expects fair treatment, enter wholeheartedly into the program of showing the people and the taxing authorities the unfairness of the present situation, together with the ultimate results of unloading the tax burdens of a State upon one industry.

BASIC PREMISES FOR THE TEXAS PETROLEUM INDUSTRY

(Texas Mid-Continent Oil and Gas Association, Dallas, Texas)

1. *Texas is the Chief Oil-Producing State of the Nation*

Last year, Texas produced 38.4 per cent of all the crude oil produced in the United States. Texas has produced to date 27 per cent of all the oil brought to the surface in the United States since 1859, although the first commercial production was not found in Texas until 1889, thirty years after the discovery of oil in Pennsylvania by Drake.

The period of greatest development in the Texas oil industry has taken place within the past nine years. In 1930, Texas produced 290 million barrels of crude oil. In 1939, production reported by the U.S. Bureau of Mines was nearly 485 million barrels.

Within this nine-year period, the State produced three and three-quarter billion barrels of oil, or 62 per cent of all the oil produced in Texas' fifty-year oil history. This was accomplished through State-wide search for and development of new oil pools, chief among which was the great East Texas oil field, opened to development in the closing months of 1930.

Today, oil and gas developed activities embrace 247 of Texas' 254 counties. Oil and gas are now produced in 148 counties, while

leasing and exploration are in progress in 100 additional counties, leaving only six counties in which there are no oil and gas leases or drilling in progress.

As a result of this State-wide development, Texas now possesses about 53 per cent of all the proven oil reserves of the United States. This is of particular significance to the future of Texas as a major source of the Nation's oil supply. In fact, present proven reserves and the rate at which new reserves are being discovered by exploratory drilling make it evident that Texas will continue to be the chief oil-producing State of the Nation for many more years to come.

2. Texas is the Chief Oil Refining State of the Nation

Texas has 141 oil refineries with a combined daily crude oil capacity of 1,361,000 barrels. One-third of all the potential crude oil refining capacity of the United States is located in Texas.

Crude oil processed by Texas oil refineries last year constituted 82 per cent of the State's total crude oil production. Texas oil refineries processed last year over 399 million barrels of crude oil, against the State's crude oil production of 485 million barrels.

Petroleum refining now constitutes 41 per cent of the total value of all manufactured products of Texas. This is augmented by 148 natural gasoline plants and 38 carbon black plants which constitute a sizable home industry for the processing of natural gas in addition to the State's crude oil production.

Texas produces one-third of the Nation's entire supply of natural gasoline and four-fifths of all the carbon black produced in the United States.

Although Texas processes the bulk of its crude oil and natural gas production, nevertheless, it consumes only one-sixth of the products manufactured at home. Other states and nations consume five-sixths of Texas' petroleum products. Texas is primarily a petroleum-producing and manufacturing state. Consequently, her problems are entirely different from those of other states which are primarily consuming states.

3. Texas is the Chief Pipe Line State of the Nation

Texas has nearly one-fourth of all the pipe line mileage of the United States, including crude oil, gasoline and natural gas lines. Texas oil and gas pipe line mileage aggregates 65,000 miles, extending into practically every county of the State, many of which do not as yet have oil or gas production.

Despite the fact that Texas is literally criss-crossed by a vast net-work of pipe lines, official figures show that the Texas petroleum industry is the largest single customer of Texas railroads, furnishing over one-fifth of their annual freight tonnage.

4. Oil Supports More Texans Than Any Other Industry in the State

A recent survey of the Texas petroleum industry and its allied branches conducted by the Texas Mid-Continent Oil and Gas Association, showed that this one industry employs over 222,000 Texans who receive annual wages and salaries aggregating over 271 million dollars.

On the basis of $4\frac{1}{2}$ persons per family, it is seen that one million Texans, or approximately one-sixth of the State's entire population, get their living directly from this one industry.

In many Texas cities, notably Houston and Beaumont, six out of every ten persons are directly dependent upon the petroleum industry for their livelihood. And, many Texas cities, with all of their varied businesses and employment depend almost entirely upon this industry for their existence. Petroleum pay rolls amount to over half of all Texas business and industrial pay rolls.

5. The Texas Petroleum Industry is the Major Support of Both State and Local Government in Texas

The Texas petroleum industry and its allied branches pays 70 million dollars a year in State and local taxes. The State itself collects from this one industry 45 per cent of its entire tax revenue, exclusive of sales and poll taxes which are paid by individuals.

The local units of government, numbering over 9,000, collect from this industry in many instances as much as 90 per cent of their total tax revenue.

Oil pays 21 million dollars a year for the education of Texas school children. This huge sum pays the entire cost of education of 387,000 school children, or one-fourth of the State's scholastic population.

6. Texas Collects the Highest Oil Production Tax of Any Producing State

Studies of official State and local tax records by the Texas Mid-Continent Oil and Gas Association show that Texas oil producers now pay an average tax of 9.8 cents per barrel. In some counties of the State the average per barrel tax amounts to 14 cents or more and in one county the tax averages 17 cents per barrel.

The average tax of nearly ten cents per barrel exceeds by at least 1 cent the next highest oil state tax and is nearly five times the tax levied by the State of Illinois. Yet, despite these facts there is constant agitation for even higher taxes on Texas oil.

7. Texas Petroleum Expenditures Benefit Every Texan

The Texas petroleum industry with all of its allied branches spends over 750 million dollars a year.

Direct expenditures of this industry in Texas include 271 million dollars in pay rolls, 132 million dollars in lease and royalty payments to Texas farmers and landowners, 70 million dollars in State and local taxes and 80 million dollars for all other operating expenditures. This creates a direct buying power in Texas of 551 million dollars. Of this, Texas retail merchants receive 324 million dollars, landlords 83 million, utilities 38 million, professional men 22 million, while 83 million go for insurance and savings. This huge sum is distributed and redistributed in an endless chain of income for Texas and its people. Practically every business in Texas benefits in one way or another from these expenditures. An additional 200 million dollars is expended annually for the industry's normal growth in Texas and to pay Federal taxes.

8. Everything That Affects the Texas Petroleum Industry Affects Texas and Its People

In no other state does any one industry exert so vast an economic influence upon the general welfare as oil does in Texas. This industry provides over 30 per cent of the total income of Texas citizens from all sources. In contrast, the petroleum industry in the rest of the Nation provides only 5 per cent of the total income.

Paralleling the expansion recorded by the Texas petroleum industry over the past nine years are increases recorded in the State's population, taxable values, highway mileage. State tax revenue, motor fuel tax collections, automobile registrations, bank deposits, new building, exports, and number of electric meters. In spite of the worst national depression in history, with greatly reduced incomes from farm crops and livestock, Texas has consistently been one of the white spots on the Nation's business map. This has been due almost entirely to oil.

Because of the great dependence placed upon this industry by so large a segment of the State's population, as well as by the State and local governments themselves, it is apparent that extraordinary effort is necessary to safeguard and promote the well-being of this industry.

Ill-advised tax measures, prompted by inaccurate and unsupported conclusions can, if adopted, easily stop the normal progress and development of this industry, to the detriment of the people, the State and its local subdivisions of government.

TEXAS OIL AND ITS TAXES

By

H. J. STRUTH,

Petroleum Economist

(Texas Mid-Continent Oil and Gas Association, Kirby Building, Dallas, Texas)

State-wide development of this great natural resource and the establishment here of manufacturing facilities for converting crude oil and natural gas into commercial products needed all over the world, have made Texas a vital nerve-center of American industry and world commerce.

The employment created by this one industry supports a million Texans, one-sixth of our population.

The tax revenue collected from this one industry now amounts to 70 million dollars a year, from which the State itself obtains 45 per cent of its tax revenue exclusive of poll and sales taxes and from which our local subdivisions of government obtain, in many instances, 90 per cent or more of their tax revenue.

Examination of State and local tax data from official sources makes it evident that Texas oil is actually paying more than 2¾ cents per barrel in taxes. This is only one of many taxes now being levied on Texas oil. The oil operators of Texas pay many additional taxes on every barrel of oil produced, such as a regulatory tax, a gross receipts tax, a franchise tax, car and truck license fees on vehicles used in the oil fields, gasoline taxes on fuel consumed by such cars and trucks; pay roll taxes, county taxes, city taxes, common and independent school taxes; road taxes, water improvement taxes, levee taxes, navigation taxes, drainage taxes, irrigation taxes, conservation and reclamation taxes.

There are 9,000 local subdivisions in Texas and all of them have the power to levy taxes on properties located within their jurisdiction. In a large number of our local subdivisions of government, in every section of the State, oil is the principal source of tax revenue.

In view of the multiplicity of taxes collected from Texas oil producers, it is obvious that taxes now being collected on this great natural resource amount to considerably more than 2¾ cents per barrel. In fact, a summation of all State and local taxes paid by Texas oil producers in 1938, revealed by an authoritative survey of official tax records, showed that the total tax bill on crude oil production alone amounted to more than 44 million dollars on production of 476 million barrels of oil. The average tax per barrel, according to this survey, amounted to 9.3 cents.

Further analysis shows that oil producers in numerous counties of the State pay taxes on oil which average 14 cents per barrel or more. In fact, the tax on oil produced in Chambers County amounts to 17 cents per barrel. In that county, which is typical of many, the oil industry paid 91 per cent of all taxes levied on the county tax roll.

Texas oil is now taxed higher than any other oil-producing State. In Oklahoma and Louisiana, where the severance tax rates, frequently compared with the Texas gross production tax, are higher and where the taxes levied on oil includes an income tax the total of all taxes against oil production averages less than 9 cents per barrel. In these States, however, the higher gross production tax is in lieu of ad valorem taxes on oil in place, while in Texas oil production, oil-producing properties and oil reserves underground are taxed by every local subdivision embracing the area in which such properties are located.

In all other oil-producing States, the tax on oil is considerably less than it is in Texas. In Illinois, which has become a serious factor in competition with Texas oil, the taxes, all told, amount to less than two cents per barrel.

If taxes on Texas oil were increased, as is frequently proposed, it is obvious that the inequity which already exists between Texas and other competing oil-producing States would be widened to the point where it would seriously handicap the normal operation and continued growth of our principal State industry.

Every barrel of Texas crude oil, whether it is refined in Texas or shipped out to other States, bears an average tax now of nearly $9\frac{1}{2}$ cents per barrel. If we add, say, 5 cents per barrel to the present gross production tax of $2\frac{3}{4}$ cents, the total tax on Texas oil would not be $7\frac{1}{4}$ cents, but would amount to nearly 15 cents per barrel. In some counties of the State, oil producers would pay 19 or 20 cents per barrel. If an alternative of placing a processing tax of 1 cent per gallon on gasoline produced from crude oil refined in Texas were adopted, the tax on Texas crude oil would be increased to nearly 28 cents per barrel!

Reports of Texas oil refiners over a period of twelve months show that the average recovery of gasoline from a barrel of crude oil is 18.2 gallons. Thus, a tax of 18.2 cents on gasoline produced from crude oil added to the tax of 9.3 cents on the crude oil itself, would raise the tax on Texas oil to $27\frac{1}{2}$ cents per barrel.

Interesting in this connection is the fact that Texas refineries process 82 per cent as much crude oil as the State produces. It is apparent, therefore, that a tax of 28 cents on crude oil and the gasoline manufactured therefrom would in the final analysis have to be borne by Texas oil producers. Furthermore, since a large

portion of the products of crude oil refined in Texas must compete with refined products produced in other States, it is apparent that any additional tax on Texas oil would prove a deterrent to our own home industry.

Oil and gas activity is at present being carried on in 247 of Texas' 254 counties. Direct employment of Texans by this one industry amounts to 222,000 wage-earners and salaried employees who receive an annual pay roll of more than 271 million dollars. In addition, official figures show that Texas farmers and landowners receive over 132 million dollars a year in lease payments and royalties. Including pay rolls, lease and royalty payments, taxes, overhead expenses and capital investments constantly being made in Texas by this industry, the annual expenditure of oil and its allied branches amount to over 750 million dollars a year. Most of this money stays right here in Texas and benefits practically everyone living in our State today.

Texas now has over half of all the known oil reserves of the Nation.

STATISTICAL SUMMARY OF THE TEXAS PETROLEUM INDUSTRY—1938

(Prepared by Texas Mid-Continent Oil and Gas Association, Dallas, Texas)

STATE SUMMARY—ALL DISTRICTS

County Statistical Record
Calendar Year, 1938

County—254 Counties	No. Poll Taxes Paid—1,133,704
Number of Oil Operators.....	5,497
Number of Gas Operators.....	530
Number of Refineries.....	141
Number of Gasoline Plants.....	136
Number of Carbon Black Plants.....	40
Miles of Oil Pipe Line.....	28,601
Miles of Gas Pipe Line (A).....	10,250

(A) Main lines only.

Reference: Oil & Gas Journal Lists 137—Bureau of Mines, 153—Jan. 1, 1938.

Gas Pipe Line—18,000 miles gas mains not included.

Acres leased—Far too low due to omission of acreage assessed below \$1.00 and non-rendered acreage.

Total Acres Leased (Rendered).....	25,059,373
Productive Acreage.....	3,801,429

Costs and Expenditures

Number of Wage-earners.....	222,086
Total Pay Rolls.....	\$271,677,670.00
Lease and Royalty Payments to Landowners (1939).....	132,478,000.00
State and Local Taxes.....	69,989,237.00
*Total of all Expenditures.....	553,073,224.00

*Does not include depletion, depreciation, interest charges, Federal taxes, Capital investments in properties, plant and equipment, etc., which are conservatively estimated at \$2000,000,000.00, making total expenditures aggregate \$753,973,224.00.

Producing Wells

Flowing Oil	36,290
Pumping Oil	48,672
Total Oil Wells	84,962
Total Gas Wells	3,302

Wells Drilled

Oil Wells	8,993
Gas Wells	333
Dry Holes	2,288
Total	11,614

Production (Barrels)

Total Oil Produced	476,193,189
Total Production Per Well	5,605
Daily Average Per Well	15.4
Gas Production	746,210,204 MCF

County Tax Values

Total Assessed Value	\$4,110,844,509.00
Assessed Value of Oil Properties	1,272,594,761.00
Per Cent Oil Value	31%

Tax Data

All Local Taxes Paid by Oil	\$38,417,208.00
Total State and Local Taxes on Production	44,090,808.00
Tax Per Barrel	9.3c (9.8c, 1939)

Texas produced more than twice as much oil in 1939 as California second largest producing State.

Fifty million acres of Texas land are now being leased from farmers and other landowners of the State by the Texas oil and gas industry.

Texas oilmen last year discovered two and one-fourth times as much oil as they produced.

New discoveries of oil in Texas represented 40 per cent of all the new oil reserves found in the entire United States in 1939.

Proven oil reserves in the United States now total nearly 20 billion barrels, of which Texas alone has 55 per cent.

Annuities paid by some Texas oil companies to retired employees total from three to six times those prescribed under the social security law.

Texas oil producers now pay the highest average tax per barrel of any State in the Union.

Texas oil producers lost over 68 million barrels of their market to other oil states with cheaper producing costs in the past two years, according to Railroad Commission figures.

STATISTICS ON TEXAS OIL PRODUCTION TAXES

(From *Important Facts about Texas Oil*, Texas Mid-Continent Oil and Gas Association)

Regional Oil Tax Data for Year 1938

Per cent of State Production	District	Production (bbls.)	Total Taxes	Tax Per Barrel	
				1938 (Cents)	1937 (Cents)
5.0	Panhandle	23,715,574	\$ 2,743,974.00	11.6	9.8
6.1	North Texas	28,868,757	2,478,584.00	8.6	7.7
1.3	West Central Texas.....	6,108,047	678,380.00	11.1	10.9
32.0	East Texas Field.....	152,560,994	13,433,349.00	8.8	7.7
7.3	Bal. East Texas.....	34,662,334	3,298,910.00	9.5	7.9
15.8	West Texas	75,354,394	6,501,016.00	8.6	8.2
16.5	Southwest Texas	78,961,999	6,679,514.00	8.5	8.3
15.0	Gulf Coast	71,572,448	7,761,573.00	10.8	10.4
1.0	Unclassified (1)	4,388,642	515,508.00	11.7	7.7
<hr/>					
100.0	STATE TOTAL	476,193,189	\$44,090,808.00	9.3	8.4
	Total, 1937	511,714,323	\$42,942,326.00	8.4	
	Increase-Decrease	35,521,134	+\$ 1,148,482.00	+0.9	

(1) Includes taxes levied on non-producing leases.

Source—State and Local Tax Records.

Summary of Taxes Levied on Texas Oil Production
(1935-1938, Inclusive) *

	1935	1936	1937	1938
Gross Production	\$ 7,830,682	\$ 9,624,678	\$ 16,547,792	\$ 15,333,421
Gross Receipts	256,726	381,455	639,441	577,385
Regulatory	627,977	780,403	948,370	892,862
Franchise	230,200	250,593	260,000	285,600
Other State Taxes (2)	335,597	852,720	1,495,400	2,569,640
Ad Valorem Taxes (3)	20,087,030	21,782,746	23,051,323	24,431,900
Grand Total	\$ 29,368,212	\$ 33,672,595	\$ 42,942,326	\$ 44,090,808
Oil Production (Bbls.)	387,708,648	415,758,579	511,714,323	476,193,189
Tax Per Bbl. (Cents)	7.6	8.1	8.4	9.3

(2) Includes pay roll taxes, car and truck licenses, taxes on gasoline used by company cars and trucks, fees and permits, etc.

(3) Includes all county and independent taxing districts which levy taxes on oil-producing propertis.

*For calendar years.

Source—Stat and Local Tax Records.

*Excerpt from***"IMPORTANT FACTS ABOUT TEXAS OIL"**

Third Edition, February, 1939

(Published by Texas Mid-Continent Oil and Gas Association, Kirby Building,
Dallas, Texas)*Tremendous Increases*

Gross production and regulatory tax collections on Texas crude oil, exclusive of other State taxes, have shown a tremendous increase during the past fifteen years. In 1922, the State collected from this source only \$2,523,370, whereas in the fiscal year 1938 the State's revenue from this source amounted to \$16,871,565. This represents an increase of 570 per cent over 1922.

On a monthly basis, tax collections from this source have nearly tripled within a period of forty-two months. In February, 1934, these collections amounted to less than 573 thousand dollars. In August, 1937, a period of peak demand, collections from this source aggregated \$1,610,000.

Analysis shows that the increase in gross production taxes recorded in recent years has been due almost wholly to rising production and improved market prices. This was particularly in evidence from 1934 through 1938. While the gross production tax rate was increased in the latter part of 1936, from 2 per cent to 2½ per cent of market value, it is apparent that economic factors outweighed the factor of a higher tax levy in providing increased revenue to the State from this source.

Local subdivisions of government receive a major portion of their annual tax revenue from the local oil industry. Analysis of county tax rolls for the year 1938 shows that in forty oil-producing counties of the State tax levies on oil-producing properties constituted 68.4 per cent of all local tax levies.

In addition to ad valorem taxes paid to county taxing jurisdictions, Texas oil operators must also pay local taxes to independent taxing districts such as schools, road, navigation, water improvement, levee districts, and city taxes. All told, the ad valorem tax bill of Texas oil producers in 1938 aggregated over 24 million dollars and represented a gain over 1937 of nearly \$1,400,000.

In sixty-four oil counties of the State, embracing 107 independent school districts, the oil industry pays 40 per cent of all tax revenue. In fifteen of the larger school districts, located in oil-producing areas, 88 per cent of all school tax revenue is obtained from the oil industry.

A COMPARATIVE STUDY OF OIL TAXES IN TEXAS, OKLAHOMA, AND LOUISIANA—1938

(Made by Research Staff of Texas Mid-Continent Oil and Gas Association)

Oil Taxes

	Texas	Oklahoma	Louisiana
Gross Production	3.2	6.0	7.5
Other State	2.0	2.4	1.0
Ad Valorem	4.1	0	0.2
TOTAL	9.3	8.4	8.7

Sources.—1938 tax records and information furnished by state-taxing authorities.

Texas:

Gross production tax is 2¼ per cent of gross value of oil at wells which last year averaged 3.2 cents per barrel. Other state taxes include proportion of county ad valorem, franchise taxes, gross receipts taxes, regulatory tax of 3/16th of a cent per barrel, car and truck license and gasoline taxes on oil company, social security taxes on oil pay rolls.

Ad valorem taxes represent average tax per barrel, including all local ad valorem levies such as county, city independent school districts, levee districts, navigation districts, water improvement districts, road districts, etc.

A recent survey of ad valorem tax assessments on Texas oil-producing properties shows that the average tax rate per \$100 of valuation is \$2.26, which on all oil production of the State shows an average tax per barrel of 5.13 cents. This includes the proportion of ad valorem taxes which are collected for and paid to the State.

Oklahoma:

Gross production tax is 5 per cent of the market value of crude oil at wells, which is in lieu of ad valorem tax levies on oil-producing properties.

Last year, the average gross production tax in Oklahoma averaged 5.96 cents per barrel, or approximately 6 cents.

Other state taxes include a 6 per cent corporation income tax, car and truck licenses, gasoline tax on oil company cars and trucks and pay roll taxes.

There are no ad valorem tax levies on Oklahoma oil-producing properties.

Louisiana:

Gross production tax ranges from 4 to 11 cents per barrel depending upon gravity of oil produced. Analysis of gravity of oil

production in Louisiana shows that, one-third of state's oil output is high gravity which pays maximum tax rate of 11 cents per barrel. Balance on Louisiana's oil production comes within tax brackets of 4 to 10 cents, with an average tax of 6 cents. The state average tax on crude oil is $7\frac{1}{2}$ cents per barrel.

Other state taxes include a 4 per cent corporation income tax, car and truck licenses, gasoline tax on fuel used by oil company cars and trucks and pay roll taxes.

Ad valorem taxes are only levied on drilling equipment and oil in storage tanks. This tax is found to average about 2/10th of a cent per barrel.

Oil Refined in Texas:

Official U.S. Bureau of Mines figures show that an average of 79 per cent of Texas oil production last year was processed by Texas refineries. On November, this agency's figures showed that 82 per cent of Texas oil production was refined by Texas oil refineries.

TAXES PAID BY PETROLEUM INDUSTRY AS RELATED TO ALL BUSINESS AND PROPERTY TAXES FOR YEAR 1938

(Based upon official State and county tax records and reliable estimates founded upon information received directly from the industry itself)

Source: Texas Mid-Continent Association. Compiled from official State and local tax records.

	Petroleum Industry and Its Products	All Other Taxes	Total
State Taxes:			
Ad Valorem	\$ 6,430,900	\$11,227,219	\$ 17,658,119 (1)
*Gross Production and Gross Receipts..	17,210,320	4,621,607	21,731,927
Regulatory	917,808		917,808
Franchise Taxes	475,100	1,046,874	1,521,964
Pay Roll Taxes	3,655,200	16,116,004	19,771,204
Other State Taxes (2)	2,882,701	6,258,879	9,141,080
Total (2)	\$ 31,572,029	\$ 39,170,078	\$ 70,742,102
Per Cent	45%	55%	100%
Motor Fuel Taxes (3)	39,618,103		39,618,103
Total State Taxes, including Motor Fuel	\$ 71,190,132	\$ 39,170,078	\$110,360,205
Per Cent	65%	35%	100%
All Local Taxes (Net)	38,417,208	100,936,506	139,353,714
Grand Total	\$109,607,340	\$140,106,579	\$249,713,919
Per Cent	44%	56%	100%
Less Motor Fuel Taxes	39,618,103		39,618,103
Total, excluding Motor Fuel Taxes	\$ 69,989,237	\$140,106,579	\$210,095,816
Per Cent	33%	67%	100%

(1) Includes \$2,154,551 uncollected. (2) Excluding all sales and poll taxes.
(3) Paid by motorists, included to show all taxes derived from petroleum industry and its products.

*This has changed very little in 1939, except for an increase in the State ad valorem tax rate of 57 per cent, which was offset in part by reduced gross production tax collections brought about by lower prices for Texas oil.

†Other minerals, \$3,793,000.

A DISCUSSION DEALING WITH THE OIL COMPANY
EMPLOYEE WAGE TAX AND WITH OTHER MATTERS
OF PUBLIC INTEREST, AS AFFECTING THE OIL
INDUSTRY

By

C. E. NICHOLSON

Member of the Texas House of Representatives

Who Pays the Crude Oil Severance Tax

If the crude oil severance tax was so named as to make it clear to everybody just what the tax is, its name would be, "The Oil Company Employee Wage Tax." This is true because every citizen with understanding must admit, that the tax is and must continue to be paid with money that would otherwise be available for oil company employee wages, should the oil companies so desire to use the money. Admitting this, the prejudiced person would try to escape by saying, that although made available for paying wages, it would, instead, be used to pay more dividends to stockholders. The individual who desires to believe the truth about issues will, however, rely upon the facts whatever they may be.

As to the ratio between dividends paid to stockholders by the oil industry of the nation, and wages paid to employees, the record over the past seventeen years, shows that the dividend payment has averaged \$224,415,175 per year, compared with a current annual employee wage payment of \$1,500,000,000; in other words, for each one dollar paid to owners, in the form of dividends, \$6.68 have been paid to employees in the form of wages. The trend during recent years, and as affecting all business enterprise, having been severely in the direction of an increased ratio of wages as compared to dividends, it can only be assumed by a reasonable person that the future oil industry wage and dividend ratio will not be reduced, when the facts to be expected are to the exact contrary.

The least extreme of these proposals that the crude oil severance tax be increased suggests that the present levy be increased to 8 cents per barrel of crude oil produced. Such a levy, including the present so-called Railroad Commission administration levy of 3/16 cents per barrel, would tax the Texas oil industry for about 50½ million of dollars per year, which would be equivalent to about \$289 per Texas employee of the oil industry.

Most of these tax advocates say nothing about the matter of where the oil companies might get the 50½ million dollars with which to pay the proposed tax. As to those whose intelligence and

interest have reached to this phase of the question, they say that the money can be obtained by increasing the sales or market prices of crude oil and the by-products thereof, and since a large part of the Texas production of these commodities is sold to other than citizens of Texas, non-residents would through their purchases supply the greater part of the money needed to pay the crude oil severance tax in Texas.

While this is what tax advocates would have the people of Texas believe, their so-called explanation of the matter fails not only to explain, but in addition it is designed to deceive, and if relied upon to extent of permitting levy of the tax, it is designed to punish a citizenship that unthinkingly relied upon assumption, instead of upon common sense. This is so, for the following reason, which is so obviously true that it seems not subject to a difference of opinion.

The many separate companies, or units of the oil industry in Texas, must sell their products in competition with prices asked for like products by other units of the oil industry operating in every state of the nation and in every country of the world. That units of the industry in Texas might like to increase sales prices in order to pay an increased tax burden in Texas, will be of no consequence to the other units of the world, and prices will therefore continue to react to the law of supply and demand in the same manner as they have always reacted from the beginning of time. Consequently the Texas oil industry will not recover the proposed increased tax burden through increasing the prices of its products.

In the interest of making the matter perfectly simple and clear, its dimensions will be reduced, but otherwise the same identical circumstances will be applied to the affairs of two separate owners of a bakery, one located in Texarkana, Texas, and the other just across the State line, in Texarkana, Arkansas. Assuming that both have been selling bread at a profit, in the same trade territory on both sides of the state line at 5 cents per loaf, then assume that because the Texas baker's taxes have been so increased that he no longer can sell at 5 cents per loaf, and must get 6 cents per loaf in order to continue in business, could any reasonable person conclude that the trade would pay 6 cents per loaf to the Texas merchant when it could buy from the Arkansas merchant at 5 cents per loaf? And could any reasonable person conclude that the Arkansas baker would increase the price of his loaf to 6 cents, when he is making a satisfactory profit at 5 cents, and perhaps under term contracts with the larger part of his customers to continue to sell at this price, and when by so continuing to sell, he would take all of his competitor's business, after which time, and

being without competition, he would be free to sell at such price as he may see fit?

Where, then, will the oil industry obtain the money with which to pay the added tax burden that would result from increasing the crude oil severance tax to 8 cents per barrel? Since either none, or in any event, no great part of it can be obtained from increased product prices, only two sources remain from which it might be obtained, namely; decreased dividends to stockholders or owners, or decreased operating expenses, or both. The first of these will be first discussed.

Considered over the period of the past eighteen years, the average net annual earning (out of which dividends are paid) of the national oil industry was 2.12 per cent. Considered over the period of the past ten years, and as applied to one of the most successful large oil companies operating in Texas, one of the so-called major companies, the average net earning has been 3.47 per cent of invested capital; 3.47 per cent on borrowed money is not more than can be readily obtained through loans to various units of the government, and 2.12 per cent is far less than the Federal Government itself stands ever ready to pay. For example, there is an ever present market for Federal Government savings bonds which pay 3.33½ per cent interest. No investment can be made in the stock of, or otherwise, in any oil company with the assurance that, either, any interest will be paid upon it, or that the amount invested will be returned, while upon the other hand, such investments can be made in securities of the government, both with assurance that a specified rate of interest will be paid and that the invested principal itself will be returned.

In view of the above record and facts, it is indeed surprising that people continue to invest their money in the stock of, that is, continue to supply the money needed to finance these companies. The government in its regulation of insurance, banking, trust companies, etc., and in the administration of its own funds, will not permit such investments, and it is inconceivable that the citizenship will continue to so invest, if dividends be further reduced. It, therefore, can be accepted as, both, a practical and common sense conclusion that no oil company in Texas will undertake to obtain any great part, if any at all, of the money to meet an increased tax burden by decreasing dividends. The sole source left then, from which the money may be obtained, is that of diminishing operating expenses.

For the purpose of this discussion, the operating expense account of oil companies can be correctly said to consist of material and supply expenses, the prices of which the oil companies, as customers, have no control over, and the quantities of which are enforced according to volume of activity, together with employee wage

expenses, an item of expense over which they do have control. The simple practical fact, therefore, is that the crude oil severance tax is paid, and may be expected to continue to be paid, out of funds that would otherwise be paid to oil company employees in the form of wages, and to stockholders in the form of dividends, in the ratio of \$6.68 to employees, to each one dollar to stockholders. Due to facts set forth above, however, there is ample justification for concluding that the entire amount of any increase over present tax levies will be paid out of money that would otherwise go to employee wages.

TEXAS OIL INDUSTRY AND TEXAS SCHOOL TAXES

(Press Release, June, 1940. Texas Mid-Continent Oil and Gas Association,
Dallas, Texas)

Taxes paid by the Texas petroleum industry for school purposes now equal $4\frac{1}{2}$ cents per barrel for every barrel of oil produced in the State.

Figures just compiled by the Texas Mid-Continent Oil and Gas Association from official records of the State Comptroller and the tax collectors of several hundred independent school districts show that the Texas petroleum business last year paid \$14.14 in school taxes for each of the 1,549,443 children attending Texas public schools. Based on the per child educational cost of \$55.30 petroleum's school taxes were sufficient to pay all expenses of educating one-fourth of the entire school population of Texas, or approximately 388,000 Texas children.

Although the State-wide average paid by oil is one-fourth of all the school taxes, petroleum pays an average of four-fifths of all school levies, including the State apportionment, in forty larger oil districts.

In these districts also the average cost of schooling per pupil is much higher than in non-oil districts. In these forty, the per pupil cost averages \$132.36, or approximately two and one-half times as much as the average \$53.93 for all other Texas school districts. In the oil districts the average costs ranged from \$100.76 to as high as \$257.65, compared with an average for all school districts of \$55.30 per pupil.

Last year the Texas oilman paid in State taxes approximately \$32,000,000, of which around \$13,000,000 was allocated to the public schools. In addition, he paid over \$38,000,000 in local taxes in which more than \$8,000,000 went to the schools. Altogether \$21,915,000 was paid to Texas public schools by petroleum last year. This \$21,915,000 divided by the 478,192,887 barrels of oil produced

in Texas in 1939 gives an average of 4.56 cents per barrel in school taxes for each barrel of oil produced in Texas.

The \$21,915,000 paid in school taxes by the Texas oilman is equivalent to the average yearly salaries of 20,655 white Texas school teachers, or more than half of the 38,620 instructors in all the white public schools in the State. In addition, taxes on gasoline paid by the consumer and collected by the oil industry at its own expense provide the schools with \$10,832,415.22 more, the equivalent of the average yearly salaries of over 10,000 additional Texas teachers. Thus Texas petroleum and its products now bear school taxes equal to the entire salaries of more than 30,000 Texas teachers, or four-fifths of all the white school teachers in the State.

SULPHUR TAXATION

Report from Texas Gulf Sulphur Co., Newgulf, Texas

The sulphur industry of Texas is comprised of only four producing companies, operating in three small, south Texas counties of the total 254 counties within the borders of the great Lone Star State. The isolated nature of this industry obviously happens to be its weakness—the entire industry being represented in the Legislature by only one state senator of the total thirty-one, and by only three of the one hundred fifty house members. Because of this fact, the industry offers a rare “straw man” during a political year and has for the past few years been unjustifiedly flayed and criticized by many who do not have access to the facts.

We have often heard it said that the producers of crude sulphur have not paid in the past and do not currently pay their fair share of the state and county tax burden, but let us look at the facts before conclusions are drawn. It is inconceivable that anyone would deliberately retard possible expansion and development of a Texas industry because of discriminatory dislike for the industry, and it is upon this premise that discussion of the tax burden of the sulphur industry is herein undertaken. There are few, if any, industries in Texas that pay so heavily, and dearly, for the privilege of doing business within the state and yet year by year we see a gradual increase in Federal, State, and county taxes. Is it not possible that future potential developers of our natural resources will desire and demand information regarding the State's attitude toward this type of industry and upon hearing of the year in, year out demands for further tax increases, would not these potential developers desist, for the time being, at least, from attempting the investment? The answer is positive and Texas and its citizenship is the loser.

Sulphur producers are taxed in a three-fold manner.

1. A \$1.03 per ton tax is paid the State upon severance. This \$1.03 per ton amounts to approximately 8 per cent of value at the mouth of the well, an amazing though authentic fact.

2. Inventories are taxed year by year so long as the product remains on hand.

3. Sulphur in place is taxed year by year until produced and then taxed again in the form of inventory taxes until ultimately sold. Thus it can be seen that these taxes become a pyramiding monster that would ultimately destroy all possible profit, unless a constant turnover is maintained. To concretely illustrate the manner in which this vicious tax system works, take the case of a single producer, the Texas Gulf Sulphur Company. During the past nine years this one company has paid a total of \$3,051,000 for ad valorem taxes upon its minerals in place (below the surface) or \$339,000 annually. Estimates are used to ascertain this assumed value. Assuming market demand warranted no greater production than 339,000 tons yearly and we readily see that the over-all State and county tax would run well over \$2.50 per ton, this figure being projected through the addition of production taxes together with ad valorem taxes upon physical and personal property. Now, to go further under such a hypothetical—though entirely possible—case and add the federal levies, then, of course, we would calculate an over-all figure easily in excess of \$3.00 per ton or in excess of 23 per cent of value at the point of severance and in excess of 19 per cent of the quoted market value. As stated, while this is hypothetically conceived, nevertheless, it is a possibility and a situation or circumstance that must be taken into consideration when discussing sulphur taxation.

Let us look further to ascertain how these taxes currently operate in dollars and cents. Taking the year 1939 as an example, we find that these four companies, comprising the entire producing industry, paid a total of \$2,948,605.03 in state and county taxes alone, which averaged an over-all state and county tax of \$1.77 per ton, or 13.6 per cent of value at the mouth of the well, and 11 per cent of the quoted sales price. To this tremendous tax load must be added the many federal levies which will run the current over-all tax per ton to well over \$2.00 per ton on a quoted consumers price of \$16. One company, the Texas Gulf Sulphur Company, showed the astounding over-all county and state tax of \$2.03 per ton for the calendar year 1939. This figures 15.6 per cent of value at the well and 12.6 per cent of the quoted sales price.

While it is evident that this industry carries its fair share of county and state burdens—and more—it is interesting to know that the Texas Gulf Sulphur Company pays approximately 68 per cent

of all taxes paid in Wharton County, one of the wealthiest from the standpoint of its natural resources (oil, gas, and sulphur), its farm land, cattle raising, etc. This large tax payment by one concern tends not only to lower tax rates but also actual taxes upon all property holders of the county. Other producers also contribute heavily to the county welfare.

The complacency of Texas industry has added, unquestionably, to its vulnerability. Investors who have made investments in good faith, investments that will inure to the state as a whole and all its people should receive at least rudimentary assurance against continued molestation and tax raids, but all of us know that this altruistic though fundamental principle of good neighborliness has not by any stretch of the imagination been a factor of much concern for many of our public officials. Apprehension grips the very heart of Texas industry and as profits decline year by year—even in the face of curtailment of all unnecessary units of operation—these investors begin to wonder if the real Moses will never come. As we view statistics showing that it is costing \$17,000,000,000 a year for the various units of government, the thought must occur to all thinking citizens that probably we are being “governed beyond our means.” The average wage-earner is now working, according to statistics, two and one-half months each year for tax collecting agencies. Of course, from the higher incomes, government takes the total income from six to nine months’ work. Should one-half of this government cost be put into the pockets of unemployed individuals, we would immediately note a pride of achievement within the personalities of this group that would reflect materially upon the moral fibre of the nation as a whole.

The ultimate solution of this problem of overtaxation, restricting of business and unemployment rests with the individual states. Class legislation must be permanently abandoned, firm and stable tax policies must be adopted and punitive “state line” legislation, so prevalent at this time, must come to a halt. Let us present the facts and closely scrutinize the current weakness of our State along these lines. Further, the pride of the people of Texas must be brought to a point of dominance in this field of recovery and industrial expansion. Texans should look with askance upon those bent upon destroying, innocently or otherwise, the initiative of business and investors, a combination that has made us the outstanding liberty-loving nation upon the face of the globe.

TEXAS SULPHUR INDUSTRY

(News Report from *Houston Post-Dispatch*, April 4, 1940)

Newgulf, April 4.—Employees of the Texas Gulf Sulphur Company gathered at the fifth semi-annual employees’ barbecue here

Thursday, were given an object lesson on capitalization by H. E. Treichler, general manager of the firm.

"The capitalist is elusive in that you can't pin him down to any one group," Mr. Treichler said. "There are many capitalists present here among you, as well as in all other communities and groups.

"As one of the 602 members of your credit union, I have read with much interest the annual report for 1939. The steady growth of this credit union through the pooling of the individual savings of its members is a concrete example of how capital is created.

Record Cited

"On December 31, 1939, a little over two years after the credit union was organized, the members' share accounts had reached the figure of \$68,405. At the end of February, this had increased to \$72,476. This is capital, the result of the accumulated savings of the members, put together to carry on the business of the credit union. Each member is a capitalist to the extent of his or her interest in the capital of the business."

Mr. Treichler said the credit union had an income for the year of \$5,351.99. The money was distributed as follows: Expenses, \$880.38; reserve for bad loans, \$894.32; dividends to members, \$2,500; balance, undivided profits, \$1,077.29.

"There is nothing mysterious about capital," Mr. Treichler said. "The business of the Texas Gulf Sulphur Company was started in the same way. A group of people pooled money from their savings; they received receipts in the form of stock certificates; the money was used to pay for land, drilling of wells, hiring of men, shop buildings, tools, and other things. Not until after sulphur was actually mined and shipped to customers did any money come in."

1939 Gross Income

Mr. Treichler said the Texas Gulf Sulphur Company had a gross income in 1939 of \$21,288,361.05.

"There is one item of expense appearing in the company statement which does not appear in the credit union statement," he said. "That is the item of taxes. To give you an idea of just what this tax amounts to, if the credit union had to pay the same proportion of its income in taxes, an additional expense item of \$749.28 would appear on its statement.

"This is at the rate of 14 cents out of every dollar of gross income. Texas Gulf Sulphur Company's total taxes are amounting to around 37 per cent of dividend payments.

'Taxes Are Necessary'

"Taxes are necessary," he continued, "and there is no disposition on our part to dodge just and equitable taxation, but we do consider it unfair to force the stockholders of this industry to shoulder an undue proportion of the tax burden."

He said the company pays about 68 per cent of all taxes paid in Wharton County. He said the company pays \$1.03 per ton as a production tax and must pay ad valorem taxes on stored sulphur until it is sold. Because of competition from pyrite, he said, the price of mined sulphur recently was reduced from \$18 to \$16 per ton.

The sulphur industry in Texas comprises four producing companies operating in three small south Texas counties, he said.

"The isolated nature of this industry obviously happens to be its weakness—the entire industry being represented in the Legislature by only one state senator out of 31, and by only three of the 150 House members," he said.

'Rare Straw Man'

"Because of this fact, the industry offers a rare straw man during a political year and has for the past few years been unjustifiably flayed and criticized by many who do not have access to the facts."

In 1939, he said, the four sulphur companies paid \$2,948,605 in state and county taxes alone, an average of \$1.77 per ton. Federal levies ran the per ton tax to well over \$2.00 on a quoted consumer price of \$16, he said.

"Despite present inequities, uninformed persons are still asking for a tax on sulphur," he said.

SULPHUR TAXATION

MR. LANGBOURN M. WILLIAMS, JR.,

President of Freeport Sulphur Company

(From *Texas Tax Journal*, Vol. 17, No. 2, November, 1938, p. 4. J. T. Smith, Editor, Austin, Texas)

Mr. Langbourn M. Williams, Jr., of New York, is president of the Freeport Sulphur Company, one of Texas' oldest and most successful business institutions.

Louisiana, to our east, is another sulphur state. Texas placed a production tax of \$1.03 per ton of each long ton produced. This tax is in addition to all other taxes including ad valorem tax on all its properties including sulphur in place or in the ground.

On November 8, 1938, the people of Louisiana adopted an amendment to their constitution limiting the power to tax sulphur production to \$1.03 per long ton, and very largely exempts such properties from ad valorem taxes. Texas has no constitutional limitation on the amount of occupation taxes that can be imposed.

This, in our opinion, is the answer to the question of why the sulphur tax in Texas was \$187,481 less for the quarter ending September 30, 1938, than for the quarter ending September 30, 1937.

The attitude of the sulphur industry as to Louisiana's coöperation with industry is well expressed by Mr. Williams in the following statement he recently gave out, in which he said:

"The amendment, passed almost unanimously by the Louisiana Legislature last summer, reduces the severance tax from \$2.00 to \$1.03 per long ton and provides for ad valorem taxes on sulphur in the ground, with constitutional limitation."

"Mr. Williams explained that, in order to achieve a fair and permanent solution of the sulphur tax problem the industry, on its part, has waived the constitutional exemption from ad valorem taxation on unmined sulphur. The state, on its part, has extended coöperation in the form of a reduction of the severance tax, in order to stimulate sulphur production," he said.

"I am sure that the message to American industry implicit in this action will bring great returns in the industrialization drive which Governor Leche has so vigorously sponsored and which in two years has been credited with bringing \$60,000,000 worth of new industrial construction into the state, with its resulting 20,000 jobs in construction and 30,000 permanent jobs in production," he said.

"Mr. Williams explained that action looking to readjustment of the sulphur tax basis was first instituted about a year ago. At that time the Louisiana State Board of Commerce and Industry, noting the adverse effect of the \$2.00 per ton tax on Louisiana production, sought the Freeport Company's coöperation, asking that it proceed with a \$300,000 expansion program originally planned for 1936. In making the request, the board said it felt the industry could well rely on the Legislature to 'deal fairly with' the tax problem."

"This building and expansion program is now nearing completion," Mr. Williams said, "and the company has recently started an additional \$120,000 construction project at the Port Sulphur, La., plant."

Oil properties now represent over 30 per cent of the assessed value of all properties in the State of Texas.

Pumping oil wells in Texas outnumber those which will flow by more than 12,000.

THE CONDITIONS ON OUR TEXAS TAX FRONT

JOHN T. SMITH

Editor of *Texas Tax Journal*

When we hear so much over the radio and read in the daily press of the colossal and stupendous sums of money being appropriated by the Congress for all phases of defense purposes, we heartily approve of such precautions and will gladly pay our part of the tax, but we also indulge the hope that waste will be minimized for in looking back over appropriations that started in 1934, the benefits accomplished by many billions were not commensurate with their cost, hence when the time comes to protect our country we realize that a policy of more prudent spending should have been practiced in the past. This national policy of spending and the results obtained, should and no doubt does cause the great majority of Texas people to turn their thoughts to the conditions that exist on our Texas tax front.

Well, here is a brief summary of conditions in Texas and its taxing units as of last year.

	Taxes Collected	Warrants and Bonded Indebtedness. Net	Delinquent Taxes
State	\$202,300,658	\$ 15,058,000	\$ 21,447,599
Counties	33,327,308	154,173,557	31,613,466
Cities and Towns	35,660,368	225,721,048	32,209,968
School Districts	34,910,484	130,257,704	23,235,511
All Other Districts	15,926,128	131,471,624	20,909,117
Totals	\$322,124,946	\$656,681,933	\$129,415,661

Remember these facts in connection with the above brief table that they are "boiled down" and arranged for your convenience and that it takes more than 40 million dollars annually to pay the interest and principal (sinking fund) and that the taxes on landed property amounts to approximately 3 per cent annually, caused by the heavy delinquency and interest on bonds.

The above report also shows we collected and the expenditure records show we also spent more than 322 million dollars, in State, county and local taxes last year and this does not include any Federal taxes. It also shows we owe around 656 million dollars (net) in bonds and time warrants and that we have around 130 million dollars in delinquent taxes and if the taxable property both real and personal, escaping taxation, paid its taxes many millions more of delinquents would be collected.

With the Federal income tax exemptions lowered from \$2,500 to \$2,000 for married people and for single persons the \$1,000 exemptions lowered to \$800 and other forms of Federal taxes will bring

into the fold of Federal taxpayers in Texas tens of thousands of people who heretofore were not subject to these taxes.

With our known extravagance and waste in our State and local governments and also with advance knowledge of the additional Federal taxes for defense purposes that must be paid, makes it imperative that all people should take a firm stand against any effort to raise any additional taxes from any source or sources for any State or local purposes.

The facts are, many candidates for the Legislature are making a direct appeal to the voters to place additional taxes on natural resources to pay the present deficit and the social security obligations. This tax, of course, would fall, in the main, on oil, gas, and sulphur. We sometimes wonder if those who advocate making natural resources pay these debts could tell what taxes these natural resources pay. They seem to forget that the easy money collected from oil, gas, and sulphur in the past was the cause of much useless extravagance today in our State Government, hence part of the results obtained from this easy natural resource money has been to place an unreasonable expense on the people that will be difficult to throw off.

Why pay more than \$2,000,000 annually in traveling expenses of State employees when this country must fortify against dictators?

Why pay five million dollars annually as an equalization fund among schools when the facts are, it serves political purposes as well as it serves educational purposes?

Why let millions of collectable delinquent taxes remain delinquent and let the old folks, the retired school teachers, the blind and the dependent children hold the empty bag?

Why let the tax dodger get away with defrauding his government out of perhaps millions?

We do not believe the Forty-seventh Legislature will aid in continuing the conditions we have briefly alluded to above by imposing additional taxes on oil, gas, sulphur, or any other line of business, big or little.

We should acknowledge that we have been entirely too wasteful in the past with this easy natural resource money. If Texas actually needed more money we say collect it but if the money is to be collected to make good the waste in government, it should not be taken away from the taxpayers.

—*Texas Tax Journal.*

Texas has nearly one-fourth of all the producing oil wells in the United States.

There are 5,500 oil companies and independent operators now operating in Texas, and 530 gas companies and operators.

THE FALLACY OF A SEVERANCE TAX ON NATURAL RESOURCES

(From *Texas Tax Journal*, Vol. 16, No. 12, September, 1938, p. 14. John T. Smith, Editor, Austin, Texas)

The election of July 23, and August 27, 1938, indicated a decided trend toward the universal pension system for all over 65 years of age, therefore the question of taxation naturally occupies a "front row seat" in the mind of all taxpayers.

In our July-August issue, we gave some facts regarding the sales tax as a dependable source of revenue. This article deals with the natural resources as to whether they afford a dependable source of income, in addition to the taxes they now pay.

The major natural resources of Texas are: *Oil, natural gas, and sulphur*. As the natural gas and sulphur are minor resources compared to oil and as both pay taxes to the amount of approximately 15 million dollars annually all told, we will not discuss these two natural resources further in this article.

In order to give the reader the background of the oil situation in Texas and the taxes paid, we give the following data based upon the latest reports that we were able to get. The average cost of production of oil per barrel is around 87 cents. The gross production tax on crude oil is 2¾ per cent per barrel, which would equal about 3.3 cents per barrel on the average. This, together with other State, county and district taxes, would make about 8.4 cents per barrel and the Federal taxes together with all the other taxes combined would make the taxes around 19 to 20 cents per barrel.

In this connection, we will state that some states have a severance tax which means a tax that takes the place of other taxes and the states that impose the severance tax, the rate per barrel is much lower than the taxes imposed by Texas.

According to the latest reports, there were approximately 32,657 flowing wells in Texas and 48,575 on the pump, 3,012 dry and 1,748 abandoned. The report shows also that there were 511,714,323 barrels on which taxes were paid and that the State and local taxes were approximately \$50,000,000 and the Federal taxes were approximately \$32,500,000 making total taxes by the oil industry in Texas last year approximately \$82,500,000. This does not include gasoline tax paid in Texas last year, which amounted to \$62,140,888 net, State and Federal.

The approximate amount paid landowners for leases, bonuses and rentals for last year was 60 million dollars, and the amount paid in royalties was approximately 45 million. Making a total of 105 million dollars the oil industry paid in royalties, bonuses, and leases to landowners and lessees.

This industry has paid to The University of Texas since the discovery of oil on University land \$26,776,375; and also has paid to the school fund many millions of dollars, and gives employment to more than one hundred thousand people and has enabled tens of thousands of landowners to realize an income from their land that they otherwise would not have received.

It must also be remembered that bringing in an oil field does not mean the same to a community and a county now as it did a few years ago. Production is subject to proration, the whole business is subject to so many additional taxes and so many different regulations and are required to make so many different reports that the profit in oil has diminished to such an extent that it has settled down to a business basis where the large major companies as well as the independent operators are required to watch the amount of their taxes and the cost of regulations, as the future holds the same uncertainty for the oil industry as it does for other lines of business.

In the past, oil fields have been brought in and would flourish for two or three years and during that time counties, road districts, school districts, cities and towns in which the oil fields were discovered, would issue bonds to the limit on the value of property as of that time to build roads, erect schoolhouses and for other purposes, and today many of those bonds are in default for the load of taxation on property in those districts amounts to confiscation, as the value of property has decreased to such a low level.

Many of the larger companies operating in Texas have the world for a market as well as carrying on an interstate business, all of which can lead into a maze of regulations and taxation, the effect of which could undermine this industry as a permanent source of income as to taxation in Texas, as oil is produced in several countries of the world.

Texas has collected a tremendous amount of taxes from these three industries but it has extravagantly spent this income, hence it is impossible to keep the pace set in the days of "flush production" and the high cost of oil, hence, taxation in those counties has become confiscatory and makes it unprofitable to even own a modest home in the territory where these "dead" oil fields once flourished. Remember, the backbone of the oil business is like other business, it is composed, in the main, of the smaller producer who spends his money in taking a chance on wild cat territory and the imposition of additional taxes will only serve to gradually put him out of business and make land less valuable for leasing and put thousands out of employment, and in general create a situation that makes the natural resources a non-dependable source from which to obtain a large additional sum of money, in addition to the large sum it now pays.

The taxes due the State by the sulphur industry are declining month by month and the oil and gas industry are on a standstill.

There was imported into the United States in 1934, 35,771,569 barrels of crude oil. This importation of crude oil declined until in 1937 only 27,484,000 barrels were imported. We suspect taxes on oil and oil properties played a considerable part in this decline. But as refined products, such as gasoline, are paid directly by the consumer, in the form of a sales tax, the amount imported in 1934 was 14,901,254 barrels and in 1937 this had increased to 29,668,000 barrels, thus indicating that where the taxes are direct this business moves through the channels of commerce on the basis of direct tax paid by the people instead of indirect.

Based upon the foregoing, we are of the opinion that taxation and government regulations are affecting our major industries in Texas far more than the people realize, and if this continues, judging the future by the trend of the present the landowners cannot hope to lease land for anything like what they have been leasing it. Production will be curtailed by reason of taxation and regulations, that the volume of business now carried on in all phases of the oil industry will be considerably restricted and the price the people will have to pay for these products will continue to go up instead of going down.

To further show the effect of the trend of taxation and regulation and the effect they are having on our natural resources, we quote in full a recent advertisement of the Lone Star Gas Co., Dallas, Texas.

"27,000 Reports From One Concern"

"This company has to file 27,000 different reports each year to government regulatory and taxing agencies. This company pays more than fifty-four different kinds of city, county, district, State and Federal taxes each year. This overlapping made the Lone Star Gas Company's total tax in 1937 amount to about \$9.00 for every domestic and commercial customer served by the system."

The 27,000 reports cover the seven member companies of the Lone Star Gas Co. system. No comment is necessary to show the increasing cost that the users of gas must pay by reason of increased taxes and expensive regulations.

Oil is produced in approximately 140 counties in Texas. In many counties there are some real independent producers. Show them this article and ask them if the information we give is in line with their experience, to the extent of their own operations. There is no surer way of testing the correctness of our statement when the records are also considered.

The State should eliminate about \$15,000,000 from its cost, as this amount is pure extravagance, and then if it needs more taxes it can easily get what it needs.

NOTE.—We are indebted to the Comptroller's Office, the Mid-Continent Oil and Gas Association, The Oil and Gas Division of the Railroad Commission and the Comptroller of The University of Texas for data contained in this article.

EDITORIAL FROM THE TAXPAYERS' DIGEST

Texas Needs Industry

Texas wants and needs more industries within its borders. Such productive enterprises provide employment opportunities for the people of Texas and raise the State's general standard of living.

The *Dallas Journal*, in an editorial reproduced in the department "What the Texas Press Is Saying About Texas" in this issue of *The Taxpayers' Digest*, recently had something to say in this connection which is important to the people generally. This newspaper, using oil as an example, pointed out that increases in taxes on the petroleum industry are sometimes advocated, and commented.

Penalizing State's Oil

"Those who favor increasing oil taxes do not take into consideration the disadvantage this would give Texas oil in competition with oil from other states which levy lower taxes, competition both in this country and in world markets."

Most significant than the effect of higher taxes on the oil industry itself, however, would be their effect on the State's efforts to build other industries. Manufacturers thinking of coming to Texas "would hesitate to take a hand in the long-desired industrial development of the State," the Dallas newspaper declared, "if it appeared to them that any industry which grew great . . . would come under the covetous eyes of the tax-eaters and the greater the industry the heavier the handicap of taxes that would be laid."

Time for Caution

This does not necessarily mean that all the severance taxes now levied are too high. But it does mean that the people of Texas will be well advised to scrutinize searchingly all attempts to place these taxes at yet higher figures. Texas cannot afford to nullify the efforts to bring about intensive industrial development simply for the sake of temporarily collecting more taxes from industries already doing business in the State.

In the words of the *Dallas Journal*:

"Reasonable and equitable taxes must be levied to carry on the business of government. But unreasonable and inequitable taxes will keep new industries out and can drive out existing enterprises. They can also contribute to the curtailment of the markets of existing industries. And a state does not grow industrially without markets for its products."

Too Much Uncertainty

The need for Texans to keep these facts in mind is intensified by the circumstance that other states seeking industrial development are striving to stabilize their tax systems—to extend fair and equitable treatment to industries engaged in the development of natural resources. Some of these states have adopted a policy of writing specific tax rates on specific industries into their constitutions through amendments submitted to popular vote. Thus, these industries can know exactly what their tax burden will be and they can plan accordingly.

That is not the case in Texas. The resulting uncertainty is not calculated to bring new industries to Texas or to cause existing industries to make plans for expansion.

A DISCUSSION DEALING WITH THE OIL COMPANY EMPLOYEE WAGE TAX AND WITH OTHER MAT- TERS OF PUBLIC INTEREST, AS AFFECTING THE OIL INDUSTRY

By

C. E. NICHOLSON

Member of the Texas House of Representatives

Injustice of Increasing Either the Crude Oil Severance or Other Oil Company Tax Levies

Having disposed of the question of who actually pays the crude oil severance tax, it is now proper to consider justification for imposing an increase in the tax.

In appreciation of the cause of justice or right, the Constitution of the State of Texas provides that "taxation shall be equal and uniform," meaning that as between persons or taxable entities of a class, there shall be no discrimination, and that all shall be treated equally and alike.

Bearing upon this constitutional commandment, the following information is submitted with reference to the tax burden which at the present time rests upon the oil industry:

- (1) The petroleum industry owns about 5 per cent of the national wealth, however, it now pays about 10½ per cent of the national tax bill.
- (2) The petroleum industry owns about 19 per cent of the taxable ad valorem valuation in Texas, however, it pays about 64 per cent of the Texas State tax bill. Excluding the gasoline tax, it pays but 45 per cent. Though excluded here solely in the interest of comparison, correct analysis will show the gasoline tax to be as substantially a petroleum industry tax burden, as any other tax it pays, all contentions to the contrary notwithstanding. (In the interest of brevity, the facts, which sustain this contention will not, here, be presented, though said facts are, for practical purposes, conclusive.)
- (3) It should be enlightening to the citizenship to know that as affecting the year of 1939, the tax levy upon the national oil industry amounted to a sum equal to approximately \$1.06 per barrel of crude oil produced in the United States during the same year, whereas the average per barrel market value of this same crude oil was but 98 cents. If, then, it was not for the fact that through the process of refining, the crude oil had been converted into by-products which were more valuable than the crude oil itself, the tax burden would have more than confiscated the value of the entire national crude oil production.

Further relating to constitutional commandment, and the question of fundamental justice, as affecting status of the oil industry employee, and as associated with the proposal that an additional crude oil severance tax; a gasoline processing tax; or any other tax levy be placed upon the oil industry, as, either, the exclusive, or the principal means of financing the Texas State social security program.

It already has been made clear that the crude oil severance tax is and will continue to be paid, at least in the main, out of funds that would otherwise be available for paying increased wages to employees of the oil industry. The same argument and facts are similarly applicable to the proposed gasoline processing tax, and to any other tax that is or may be levied upon the oil industry, that is, all must, in large part, be paid out of funds that would otherwise be available for oil industry employee wages.

The following statistics are submitted with reference to Texas citizens employed by the oil industry of Texas; Texas citizens employed by industry in Texas allied with the oil industry; and the number of Texas citizens dependent upon each and both, assuming the ratio of four and one-half citizens to each employed person, the same as used in governmental statistics:

	Persons Employed by	Persons Dependent Upon	Percentage of Texas Population
Texas Oil Industry.....	175,000	787,500	13
Allied Industries	40,000	180,000	3
TOTALS	215,000	967,500	16

The foregoing statistics take no accounting of community service businesses, such as grocers, clothiers, druggists, furniture dealers, barbers, insurance underwriters, the professions, etc., who depend for their existence upon the patronage of and wages received by oil industry employees. Considering this citizenship, together with employees of the oil industry and their families, and basing the whole upon analysis of dependency made by the chambers of commerce of Houston, Dallas, San Antonio, Fort Worth, Beaumont, Wichita Falls, Amarillo, and Corpus Christi, 38 per cent of the citizenship of Texas is directly dependent upon the payment of employee wages by the Texas oil industry, which said estimate will undoubtedly be regarded by any observing citizen of Texas as being conservative. Therefore, any tax burden which affects oil industry employee wages, will not only burden said employees, but will, in similar manner, burden a large part of the service businesses, and in some cases practically all the service businesses of many counties in the State.

By virtue of their employments, each of the approximately 175,000 citizens of Texas who are employed by the oil industry, are beneficiaries under Federal old age insurance law, in pursuance of which, benefits are of such sufficient sum, as save for exceptional cases, to disqualify the employee for any benefit whatsoever under Texas State pension law. In addition, however, about 100,000 of the approximately 175,000 citizens are employed by the so-called major oil companies, practically all of which said companies, for benefit of their employees, have in effect, company pensions and insurance plans, which are in addition to, and which return greater average benefits than does the Federal old age insurance, therefore, as to such employees, it is obvious that none can possibly qualify for benefits under provisions of Texas pension law.

Bearing in mind that the Texas social security program is, in the main, a program of pensions for the aged, and further bearing in mind that the crude oil severance tax; the gasoline processing tax; and all other tax levies placed directly upon the oil industry are, in fact, oil company employee wage taxes, the proposals of those who would levy them, mean simply that they would place the whole Texas social security burden directly upon about 175,000 citizens of the State, practically all of whom would be disqualified from receiving any return whatsoever from pension benefits, which they and fellow non-resident employees of the many oil companies operating in Texas had purchased for the remaining approximately six million citizens of the State.

Why Should the Oil Industry or Any Unit Thereof Be Punished?

Having now disposed of the tax proposals which certain citizens of the State are advocating, the proposal that punitive action of

some character be taken against the successful, especially the large units of the oil industry, will be next discussed.

For the purpose of this discussion, status in relation to its employees, of one of the largest of the so-called major oil companies operating in Texas, will be made use of.

- (1) The amount of money which the company has invested in physical properties, facilities, and working funds, is approximately equivalent to \$26,000 per employee on its pay rolls.
- (2) It pays its employees an average yearly wage of approximately \$2,000, while over the period of the past ten years, the average annual return to owners for money invested in the company has been but 3.47 per cent of said investment. (It should be worthy of notice that the oil industry average employee wage is near the highest, if not actually the highest average employee wage paid by any industry in the world.)
- (3) The company participates about equally with its employees, in the purchase of life insurance and old age pension and permanent disability retirement benefits, provided for under plans sponsored by the company, under which the average employee benefit is far in excess of pension provided by Texas State law, in fact, an average benefit of such sufficient sum as to remove the aged employee from all dependency upon the government or others.
- (4) The company participates equally with the employee, in the purchase of pension benefits under the Federal Old Age Insurance Act. This benefit, although ordinarily less than the benefit which accrues under the company sponsored plan, is alone sufficient, save for very exceptional cases, to provide monthly income in such amount that the aged employee could never qualify for pension under Texas State law.
- (5) The company paying alone, and in conformity with Texas State and Federal law, provides wage compensation in respect of the unemployment of persons who leave its service.
- (6) In respect of accidents and sickness, whether contracted while engaged in work for the company or not, the company finances a plan, under which employee benefits, save for very exceptional cases, are equivalent to regular working wages. This consideration to its employees, is wholly in addition to, save that it is diminished by, any sums as may become due the employee, by virtue of the application of State law as affecting industrial accidents.
- (7) Several hundreds of thousands of dollars are spent each year by the company, in field safety equipment; doctor, nurse, and medical services; and in teaching employees the art, rules, and principles of safety and emergency aid.
- (8) An immense sum is spent each year, to provide recreations for employees; annual vacations of two weeks, etc.
- (9) Finally, under company policy, the job of each employee is absolutely secure, in the absence of economic forces, and acts of God over which the company has no control, and in the presence of reasonable effort upon part of the employee to perform his duties. Policy of the company in the matter of discharging an employee, is in fact so liberal, that it is difficult for the employee, by his own failures of conduct, to get himself fired. (This last statement is no exaggeration, and is made solely, because of the public notice that such an employer policy should invite.)

Though the above comments refer to a particular company, the substance of them is substantially applicable to many other companies, in fact, to such number of them as employ the larger part of the approximately 175,000 citizens now working for the oil industry of Texas.

Briefly stated, the company, together with the other similar companies referred to, has set each of its tens of thousands of employees up in a business having an investment value of approximately \$26,000 per employee or business unit. That is, it has, in effect, created several tens of thousands of approximately \$26,000 investment value, employee business units, and in respect of each, has guaranteed the employee owner of each unit, a net annual income therefrom, of near \$2,000, and has underwritten the perpetuity of the business, for a length of time, corresponding with the working life of the employee owner. Furthermore, during the working life of the employee, said business owner or employee, will be paid in respect of sickness, accidents, and vacation rest, and also will be provided with recreations. When the working life of the employee has come to its end, said business owner or employee, will have, through the near equal help of his employer, been provided with economic security during the period of old age, and likewise will have been provided with an inheritance of some value that may be claimed by kinsfolk.

How many citizens of Texas, especially, how many of those who must work in the service of some employer, have or could obtain \$26,000 with which to establish themselves in business. Of those who have, or could borrow, how many could obtain an annual return of near \$2,000 from the investment? A better question, under existing economic conditions, including tax burden, governmental regulation, meddling, etc., would be, how many would be in business at all, by the end of the first year? How many would succeed in laying anything aside for old age, etc.? These are both practical and profound questions.

Shouldn't it in reason appear, as affecting an institution of the character described, that it is from standpoint of the public weal, an asset, comparable to which, the government with none of its efforts so far in effect, and none of its reasonable hopes, is making or can expect to make any near approach? Shouldn't an honest citizen, therefore, ask why, a public policy of punitive action against industry? Why a policy of punitive action against the oil industry? Why a policy of punitive action against major units of the oil industry, for the company specifically referred to herein, is one of the largest and most successful of the so-called major units. Surely, to the contrary, such industrial units ought to be encouraged to grow, and acquire the dimensions necessary to properly sustain their

employees, and hold out to them dependable guarantees as to perpetuity of proper treatment.

The Market Price Fixing Giant

Another line of attack pursued by those who would do violence to the oil industry of Texas, seeks to arouse public resentment by virtue of comments made about market prices of crude oil and the other products marketed by the oil industry, such as gasoline, lubricating oils, etc. The trend of these comments is such as to leave the impression, that somewhere in the oil industry there is a giant who is able to fix prices as he pleases, and who in fixing said prices, is ruled solely by mercenary purpose.

In this as in all other matters, any person who refuses to be led by an evangelism of prejudice, will rely upon the facts, in which interest the following statistics are submitted, the same having been published by the United States Department of Labor. The statistics compare the prices of various commodities, showing as to each, what percentage the prevailing price today, is of the price that prevailed in the year of 1926.

Classified Products	Percentage of Which the 1940 Price is of the 1926 Price
(1) Petroleum products	61.7
(2) Textile products	73.5
(3) Farm products	80.4
(4) Chemical products	81.2
(5) Food products	85.5
(6) House furnishings	91.0
(7) Metal products	96.4
(8) Hides and leather products	106.7
(9) All other products	85.4

The above facts disclose that, since the year of 1926, "petroleum product" market prices have decreased far more than the market prices of the other commodities, however, the statistics fail to do justice to decrease that has affected the retail price of gasoline, this being the particular petroleum product which is most frequently referred to by exponents of prejudice, with the statement that the price fixing giant of the oil industry manipulates it as he sees fit in the interest of increased oil industry earnings, or stock dividend payments.

Exclusive of the sales tax, the average retail price of gasoline which prevailed in the United States during the year of 1920 was 29.74 cents per gallon. The same price for the year of 1939 was 13.31 cents per gallon. The 1939 price was, therefore, but 44.7 per cent of the 1920 price. In addition to the enormous price decrease, the commodity itself has been materially improved in quality, a conclusion that any automobile driver will agree to, likewise an

observation that can be as truthfully made with reference to all other oil industry products, excepting for crude oil, but this same statement cannot be made with reference to the major portion of the other products accounted for in the list appearing above.

If this imaginary price fixing giant of the oil industry was a reality, rather than a visionary creation of ignorance, or prejudice, or both, the facts force the conclusion, that he is, at least, less mercenary than charged, also less mercenary than the forces,—or the imaginary giants of prejudice,—which control the prices of the other classified commodities.

If contrary to the price fixing power of economic law, some invisible giant of the oil industry has had the power to fix gasoline and other petroleum product prices where he pleases, and if this creature of prejudicial reasoning, is governed solely by mercenary purpose, why have oil industry product prices decreased more than the prices which apply to products of the other statistical classifications? Why does not gasoline sell to day, for the price it sold for during the year 1920, or at least, why does it not sell at some price greater than that now prevailing? Why do not oil industry products sell at prices that would return an oil industry dividend of 10 per cent, or 8 per cent, or 6 per cent, instead of the approximately 2 per cent, which has been returned over the past eighteen years?

The answer to all these “whys,” which is, of course, accepted by every person with understanding, is that market prices, in the presence of competition such as exists within the oil industry, have since the beginning of time, and will continue to the end of time, to respond in exact conformity with the stress of economic law, a primary feature of which is the matters of supply and demand. The concept of a price fixing, or otherwise powerful giant, necessarily, in the matter of the giant’s creation and existence, must rely upon a type of prejudice or ignorance, that either has no respect for the truth, or no ability to comprehend truth.

“IMPORTANT FACTS ABOUT TEXAS OIL”

Third Edition, February, 1939

(Published by Texas Mid-Continent Oil and Gas Association, Kirby Building,
Dallas, Texas)

Stripper Costs High

Operating costs of stripper wells are naturally high because of limited productivity. At present market prices, stripper well production leaves little, if any, margin of profit to the producer. The cost of stripper well production frequently exceeds one dollar per

barrel, and much of this production is today selling at less than one dollar per barrel.

Stripper well operators are the "cotton farmers" of the Texas oil industry, for many of them live on their producing properties and personally pump, repair, and clean out their producing wells. Like the cotton farmer, the stripper well operator faces declines in market prices with a hopeful attitude and the determination to carry on until more favorable conditions turn loose into profits.

He has invested his capital in former days and slowly eats up this invested capital which developed his oil production. And, he finally goes out of the picture as an operator when oil prices, high taxes, and other cost factors no longer permit him to survive.

The cost of drilling in Texas last year exceeded 316 million dollars, of which nearly 70 million dollars represented the cost of drilling dry holes. Constantly deeper drilling has been accompanied by rising labor and equipment costs. Today, the average cost of drilling an oil well in Texas amounts to about \$26,000, compared with an average of \$15,000 per well in 1922.

Texas oil is being produced today from an average depth of 4,000 feet, compared with an average of 2,500 feet between 1926-31. Figures of the Railroad Commission show that only a little over 85,000 wells remained on production as of January 1, 1939. This indicates that nearly 35,000 producing wells have been abandoned, either because they ceased to be productive of oil or because of economic conditions which forced premature abandonment.

"Wildcat" drilling operations, which frequently result in the discovery of new oil fields, are shown to be extremely more hazardous since recorded experience of the industry shows that 91 per cent of such wells drilled are non-productive of oil or gas. Many such wells involve costs which exceed \$100,000 per well.

Geophysical prospecting for oil in Texas has greatly facilitated the location of hidden oil pools in various parts of the State. Yet, this method of finding oil also involves a tremendous cost. Last year, the Texas oil industry spent over ten million dollars for geophysical prospecting.

Stripper Wells

Fifty-nine per cent of all producing oil wells in Texas are in the pumping or stripper class, according to official figures of the Texas Railroad Commission. Outside of the East Texas field 75 per cent of all producing oil wells are pumping wells, and in seven of ten major producing districts of the State the proportion of pumping wells range from 67 per cent to 97 per cent.

Texas Railroad Commission figures for January 1, 1939, show that there are 85,387 producing oil wells in the State, of which

50,378 wells are in the pumping or stripper class. The average daily production per well from all producing wells in 1938 was 16 barrels, but the December, 1939, figures show a daily average per well of only 15.1 barrels. Oil wells in the North Texas area produced an average of 4.6 barrels of oil per well last year, while those in West Central Texas only showed an average of two barrels daily per well.

Production curtailment last year resulted in a reduction in output per well for the State amounting to 1,193 barrels. The average amount of oil produced per well in Texas last year was 5,835 barrels, against a total of 7,028 barrels per well recorded for the year 1937. Along with reduced production, lower prices for oil were posted last October which severely affected financial returns of Texas oil operators.

Stripper wells are the "backbone" of the Texas oil industry, since hundreds of Texas communities depend upon their continued operation for their livelihood and commercial trade. Nearly one-third of all the oil produced in Texas come from stripper wells.

Thousands of Texas citizens are employed in the operation of stripper wells. Farmers and landowners depend upon lease rentals, lease bonuses and oil royalties to augment their cash receipts from crops and livestock. Counties, cities, independent school districts, and other local subdivisions of government obtain from these stripper oil fields a substantial part of each year's tax revenues.

TEXAS OIL FACTS

Source: Texas Midcontinent Oil and Gas Association

Since 1922, prices of oil field equipment and supplies have advanced 51 per cent.

Ninety-five per cent of all the oil wells in North Texas are now on the pump. The daily average output is 4.6 barrels per day.

In the Texas Panhandle, 97 per cent of all producing oil wells are pumpers.

Oil wells in West Central Texas average only two barrels daily per well.

Texas is not only the largest producer of natural gas but also the largest consumer. Three-fourths of all the marketed gas production in Texas is consumed within the State by Texas homes and industries.

Nearly 400,000 Texas school children each year have their entire schooling paid for by the Texas oil and gas industry.

Four-fifths of all the oil produced in Texas is also refined in Texas, making petroleum refining the State's largest manufacturing industry.

Taxes paid by Texas oil producers now average 9.8 cents per barrel, the highest average oil tax paid in any oil state.

Texas has proven oil reserves of more than ten billion barrels, or over half the proven oil reserves of the entire United States.

More than half the counties of Texas, or 147 out of the State's 254, now produce oil or gas. In 100 more, oil or gas exploration is now under way, making a total of 247 out of 254 counties with oil or gas activity.

Texas has more than 90,000 producing oil wells. Last year each well averaged less than 15 barrels a day.

Texas has more than 9,000 local civil subdivisions with authority to levy taxes and issue bonds. Included are levee districts, water districts, drainage districts, school districts, irrigation districts, flood control districts, road districts, and many others.

Eighty per cent of all the crude oil produced in Texas is refined in Texas. Less than three per cent of the cotton produced in Texas is processed in Texas and none of the wool or mohair.

Nearly one-third of all the oil produced in Texas comes from oil pumping or stripper wells.

The cost of State Government in Texas in 1924 was \$50,519,819. By 1938 it had more than trebled, being \$157,747,878.

Regulation of the Texas oil and gas industry by the Texas Railroad Commission is paid for by the oil industry itself through a special tax on every barrel of oil produced in Texas. In 1939 this tax totaled \$860,000.

Twenty-three thousand pumping or stripper wells in older Texas oil fields average only three barrels of oil daily, Railroad Commission reports show.

Texas' present proven oil reserves of 10,794,055,000 (billions) barrels are over five billion barrels more than all the oil produced in Texas during the past fifty years.

Texas petroleum is produced today from an average depth of 4,000 feet or four-fifths of a mile. Before 1920 it was produced from an average depth of 1,200 feet, or less than one-third as deep.

In 1922 the average cost of drilling an oil well in Texas was \$15,000. In 1938 it was \$26,000, due to wage increases, deeper drilling, and more expensive equipment.

The Panhandle gas field is the largest natural gas reservoir in the world.

Three hundred billion feet of sour gas, unfit for any other commercial use, are converted into carbon black each year in Texas.

A recent survey by an oil company showed that its employees received 15.6 cents of each dollar it spent, while the stockholders got 3.7 cents. The tax collectors, however, got 23 cents, or more than both groups combined.

